

**OFFICIAL STATEMENT DATED FEBRUARY 26, 2019**

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF HARRIS-FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 5. IN THE OPINION OF SPECIAL TAX COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL.

THE BONDS HAVE BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—Qualified Tax-Exempt Obligations."

Insured Rating (BAM): S&P "AA" (stable outlook)  
Underlying Rating: S&P "A-"  
See "MUNICIPAL BOND RATING" and  
"MUNICIPAL BOND INSURANCE" herein.

**\$6,200,000**

**HARRIS - FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 5**  
*(A political subdivision of the State of Texas located within Harris and Fort Bend Counties)*  
**UNLIMITED TAX REFUNDING BONDS**  
**SERIES 2019**

**Interest accrues from March 1, 2019**

**Due: April 1, as shown below**

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially Regions Bank, Houston, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from March 1, 2019, and is payable each April 1 and October 1, commencing October 1, 2019, until maturity or prior redemption. The Bonds will be issued only in fully registered form. The Bonds will be issued in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial Owners (as defined herein under "BOOK-ENTRY-ONLY SYSTEM") of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar, as herein defined, directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY-ONLY SYSTEM."



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See "MUNICIPAL BOND INSURANCE" herein.

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS**

Due (April 1)	Principal Amount	Interest Rate	Initial		CUSIP Number (b)	Due (April 1)	Principal Amount	Interest Rate	Initial		CUSIP Number (b)
			Reoffering Yield (c)	Yield (c)					Reoffering Yield (c)	Yield (c)	
2020	\$ 110,000	4.000 %		1.840 %	414543 KN7	2026	\$ 720,000 (a)	2.250 %		2.470 %	414543 KU1
2021	110,000	4.000		1.900	414543 KP2	2027	750,000 (a)	4.000		2.360	414543 KV9
2022	585,000	4.000		1.950	414543 KQ0	2028	785,000 (a)	2.625		2.800	414543 KW7
2023	620,000	4.000		2.040	414543 KR8	2029	820,000 (a)	4.000		2.480	414543 KX5
2024	655,000	4.000		2.170	414543 KS6	2030	355,000 (a)	3.000		3.070	414543 KY3
2025	690,000	4.000		2.300	414543 KT4						

- (a) Bonds maturing on or after April 1, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on April 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds, when issued, will constitute valid and legally binding obligations of Harris-Fort Bend Counties Municipal Utility District No. 5 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Fort Bend County, the City of Houston or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS".

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Bond Counsel, Houston, Texas and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel. Certain legal matters will be passed on for the Underwriter by McCall, Parkhurst & Horton, L.L.P., Houston, Texas. Delivery of the Bonds in book-entry form through DTC is expected on or about March 28, 2019.

**SAMCO CAPITAL MARKETS**

**TABLE OF CONTENTS**

**USE OF INFORMATION IN OFFICIAL STATEMENT ..... 2**  
**SALE AND DISTRIBUTION OF THE BONDS ..... 3**  
**OFFICIAL STATEMENT SUMMARY ..... 4**  
**SELECTED FINANCIAL INFORMATION (UNAUDITED)..... 7**  
**PLAN OF FINANCING ..... 8**  
**DEBT SERVICE REQUIREMENTS..... 10**  
**THE BONDS ..... 11**  
**BOOK-ENTRY-ONLY SYSTEM ..... 15**  
**THE DISTRICT ..... 16**  
**MANAGEMENT OF THE DISTRICT..... 18**  
**THE SYSTEM..... 19**  
**WATER AND SEWER OPERATIONS ..... 21**  
**FINANCIAL STATEMENT (UNAUDITED)..... 22**  
**ESTIMATED OVERLAPPING DEBT STATEMENT ..... 22**  
**TAX DATA..... 23**  
**TAXING PROCEDURES ..... 25**  
**INVESTMENT CONSIDERATIONS..... 28**  
**MUNICIPAL BOND RATING..... 34**  
**MUNICIPAL BOND INSURANCE ..... 34**  
**LEGAL MATTERS..... 35**  
**TAX MATTERS ..... 36**  
**VERIFICATION OF MATHEMATICAL CALCULATIONS ..... 38**  
**REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS..... 38**  
**NO MATERIAL ADVERSE CHANGE ..... 38**  
**NO-LITIGATION CERTIFICATE ..... 39**  
**PREPARATION OF OFFICIAL STATEMENT..... 39**  
**CONTINUING DISCLOSURE OF INFORMATION..... 40**  
**MISCELLANEOUS..... 42**

INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS  
 OF THE DISTRICT FOR FISCAL YEAR ENDED DECEMBER 31, 2017 ..... APPENDIX A  
 SPECIMEN MUNICIPAL BOND INSURANCE POLICY ..... APPENDIX B

**USE OF INFORMATION IN OFFICIAL STATEMENT**

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the District.

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas, 77056 upon payment of the costs of duplication.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that relevant information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in “UPDATING OF OFFICIAL STATEMENT.”

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this OFFICIAL STATEMENT or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “MUNICIPAL BOND INSURANCE” and “APPENDIX B—Specimen Municipal Bond Insurance Policy.”

## SALE AND DISTRIBUTION OF THE BONDS

### **The Underwriter**

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$6,475,233.66 (representing the par amount of the Bonds of \$6,200,000, plus a net premium on the Bonds of \$324,729.75, less an Underwriter’s discount of \$49,496.09) plus accrued interest. The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

The Underwriter has reviewed the information in this official statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

### **Prices and Marketability**

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

### **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire Official Statement and of the documents summarized or described therein.

### THE DISTRICT

*Description*.....Harris - Fort Bend Counties Municipal Utility District No. 5 (the “District”) is a political subdivision of the State of Texas, created by order of the Texas Natural Resources Conservation Commission, a predecessor to the Texas Commission on Environmental Quality (the “Commission”), dated February 17, 1995. The District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District currently contains approximately 478 acres of land. The District has indicated its intent to annex an approximately 4 acre tract of land. See “THE DISTRICT.”

*Location*.....The District is located in Harris and Fort Bend Counties, approximately 26 miles west of the central downtown business district of the City of Houston. Access to the District is provided by State Highway 99 (Grand Parkway) and Westheimer Parkway and Bayhill Boulevard. The District is located entirely within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District. See “THE DISTRICT.” Description and Location.”

*Recent Extreme Weather Events; Hurricane Harvey*.....The greater Houston area is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the Operator, there was no interruption of water and sewer service as a result of Hurricane Harvey. According to the Engineer, the District’s Water Plant No. 2 sustained flood damage that caused the plant to lose power, including backup power from the outside generator, during Hurricane Harvey. Water Plant No. 2 was put back online and is fully functional. To the knowledge of the District, approximately 30 homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District’s tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected. See “INVESTMENT CONSIDERATIONS--Recent Extreme Weather Events; Hurricane Harvey.”

*Status of Development*.....Residential development in the District currently includes Falcon Landing, Sections One, and Three through Ten, and Katy Creek Ranch, Sections One through Nine. Development within the District includes 1,334 single-family residential lots on approximately 307 acres. As of December 5, 2018, 1,320 homes were completed and occupied and 12 homes were completed and unoccupied.

Approximately 70 acres have been developed for commercial purposes. Commercial development includes a Kroger Grocery Store with an adjacent 18,300 square foot retail center, a Kroger’s gas station, and a Wells Fargo Bank and a Jack in the Box occupying pad sites. Commercial development also includes 2 small retail centers, occupied by restaurants, title companies, a flooring company, an Avis Rental Car facility, and several nail and hair salons. A Christian Brothers Automotive, a Good Year Tire Store, a Traditions Bank, a Kwik Kar Lube and Tune, a Shell Service Station (which includes a McDonald’s restaurant), a Timewise convenience store and gas station, a swim academy, a funeral home, a Walmart Neighborhood Market and the Westwood Gymnastics facility have also been constructed in the District. Marcel Commons Retail, LLC and Marcel Commons Retail Pad, LLC (collectively “Marcel Commons”) have built commercial improvements on four tracts of land, cumulatively totaling 4.608 acres of land. Marcel Commons 2 includes a retail center and office building constructed on approximately 10 acres of land. Solea Cinco Ranch, an active adult apartment complex, has been constructed on approximately 9 acres of land.

Two churches have been constructed on approximately 26 acres, including the Westland Baptist Church and the Church of the Holy Apostles. The property of both churches is exempt from taxation by the District.

There are approximately 10 acres of developable land in the District which are not currently provided with water distribution, wastewater collection and storm drainage facilities and approximately 44 acres that are undevelopable. See “THE DISTRICT--Status of Development.”

*Payment Record* ..... The District has previously issued \$29,615,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing water, sewer and drainage facilities in twelve series and \$7,565,000 principal amount of unlimited tax refunding bonds in two series, of which an aggregate of \$19,035,000 principal amount remains outstanding (the “Outstanding Bonds”). The District has never defaulted on the debt service payments on the Outstanding Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”

**THE FINANCING**

*The Issuer* ..... Harris - Fort Bend Counties Municipal Utility District No. 5 (the “District”), a political subdivision of the State of Texas, is located in Harris and Fort Bend Counties, Texas. See “THE DISTRICT.”

*The Issue* ..... The \$6,200,000 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”) are being issued as fully registered bonds pursuant to an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the District's Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature serially in the years 2020 through 2030, both inclusive, in the principal amounts and on the dates shown on the cover page hereof. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from March 1, 2019, and is payable October 1, 2019, and each April 1 and October 1 thereafter, until the earlier of maturity or prior redemption. See “THE BONDS.”

*Book-Entry-Only System* ..... The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See “BOOK-ENTRY-ONLY SYSTEM.”

*Redemption* ..... Bonds maturing on or after April 1, 2026 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on April 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”

<i>Use of Proceeds</i> .....	Proceeds from the sale of the Bonds and lawfully available debt service funds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund \$6,280,000 of the Outstanding Bonds in order to achieve net savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$12,755,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING.”
<i>Authority for Issuance</i> .....	At elections held within the District on May 6, 1995, and November 5, 2013, voters of the District authorized a total of \$27,000,000 in bonds for the purpose of refunding bonds of the District. The Bonds are issued by the District pursuant to said election and the terms and provisions of the Bond Order, Article XVI, Section 59 of the Texas Constitution; Chapter 1207 of the Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; and City of Houston Ordinance No. 97-416. See “THE BONDS— Authority for Issuance”
<i>Source of Payment</i> .....	Principal of and interest on the Bonds and the Remaining Outstanding Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Harris County, Fort Bend County, the State of Texas or any entity other than the District. See “THE BONDS— Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance</i> .....	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM” or the “Insurer”). The Bonds also have been assigned an underlying credit rating of “A-” by S&P without regard to credit enhancement. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”
<i>Qualified Tax-Exempt Obligations</i> .....	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS-- Qualified Tax-Exempt Obligations."
<i>Bond Counsel</i> .....	Schwartz, Page & Harding, L.L.P., Bond Counsel, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Financial Advisor</i> .....	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Special Tax Counsel</i> .....	McCall, Parkhurst & Horton L.L.P., Dallas, Texas.
<i>Underwriter’s Counsel</i> .....	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar</i> .....	Regions Bank, Houston, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”
<i>Verification Agent</i> .....	Public Finance Partners LLC, Minneapolis Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

### INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire Official Statement with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2018 Certified Taxable Assessed Valuation.....	\$428,790,833	(a)
Gross Direct Debt Outstanding .....	\$18,955,000	(b)
Estimated Overlapping Debt .....	25,888,816	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$44,843,816	
Ratios of Gross Direct Debt to:		
2018 Certified Taxable Assessed Valuation .....	4.42%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2018 Certified Taxable Assessed Valuation.....	10.46%	
Debt Service Funds Available as of January 16, 2019 .....	\$1,741,029	(d)
Operating Funds Available as of January 16, 2019 .....	\$4,752,060	
Capital Projects Funds Available as of January 16, 2019 .....	\$ 549,960	
2018 Debt Service Tax Rate.....	\$0.385	
2018 Maintenance Tax Rate.....	0.120	
2018 Total Tax Rate.....	\$0.505	
Average Annual Debt Service Requirement (2019-2035).....	\$1,398,891	(e)
Maximum Annual Debt Service Requirement (2025).....	\$1,633,513	(e)
Tax Rates Required to Pay Average Annual Debt Service (2019-2035) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation.....	\$0.35	(f)
Tax Rates Required to Pay Maximum Annual Debt Service (2025) at a 95% Collection Rate		
Based upon 2018 Certified Taxable Assessed Valuation.....	\$0.41	(f)
Status of Development as of December 5, 2018 (g):		
Homes Completed and Occupied.....	1,320	
Homes Completed and Vacant.....	12	
Commercial Connections .....	31	
Estimated Population .....	4,620	(h)

- (a) The Harris County Appraisal District ("HCAD") has certified \$12,270,956 of taxable value on the properties located within the District in Harris County. The Fort Bend Central Appraisal District ("FBCAD") has certified \$416,519,877 on the properties located within the District in Fort Bend County. See "TAXING PROCEDURES."
- (b) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "Overlapping Taxes."
- (d) The District will apply \$116,000 of this balance to the refunding of the Refunded Bonds.
- (e) See "PLAN OF FINANCING—Debt Service Requirements."
- (f) See "TAX DATA—Tax Adequacy Debt Service" and "INVESTMENT CONSIDERATIONS—Maximum Impact on District Tax Rate".
- (g) See "THE DISTRICT—Land Use—Status of Development."
- (h) Based upon 3.5 persons per occupied single-family residence.

## OFFICIAL STATEMENT

**\$6,200,000**

### **HARRIS - FORT BEND COUNTIES MUNICIPAL UTILITY DISTRICT NO. 5 (A political subdivision of the State of Texas located within Harris and Fort Bend Counties)**

#### **UNLIMITED TAX REFUNDING BONDS SERIES 2019**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris - Fort Bend Counties Municipal Utility District No. 5 (the "District") of its \$6,200,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapter 1207 of the Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended, City of Houston Ordinance No. 97-416, an election held within and for the District, and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board").

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of documents may be obtained from the District c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056, upon payment of the cost of duplication.

#### **PLAN OF FINANCING**

##### **Purpose**

The District's voters have authorized the issuance of a total of \$39,600,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities, of which \$9,985,000 principal amount remains authorized, but unissued. The District's voters have also authorized a total of \$27,000,000 principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District currently has \$26,463,347.28 principal amount of unlimited tax refunding bonds authorized but unissued.

The proceeds of the Bonds and lawfully available debt service funds, if any, are being used to currently refund and defease a portion of the District's Unlimited Tax Bonds, Series 2008 totaling \$2,400,000 and the District's Unlimited Tax Bonds, Series 2011 totaling \$3,880,000 (collectively the "Refunded Bonds") in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See "Sources and Uses of Funds." A total of \$12,755,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds").

##### **Outstanding Bonds**

The following table lists the original principal amount of Outstanding Bonds, and the current principal balance of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
Unlimited Tax Refunding Bonds, Series 2006	\$ 4,030,000	\$ 535,000		\$ 535,000
Unlimited Tax Bonds, Series 2008	3,500,000	2,500,000	\$ 2,400,000	100,000
Unlimited Tax Bonds, Series 2011	3,880,000	3,880,000	3,880,000	-
Unlimited Tax Refunding Bonds, Series 2011A	3,535,000	1,975,000		1,975,000
Unlimited Tax Bonds, Series 2013	4,375,000	4,375,000		4,375,000
Unlimited Tax Bonds, Series 2014	4,155,000	3,755,000		3,755,000
Unlimited Tax Bonds, Series 2015	2,015,000	2,015,000		2,015,000
Total	\$ 25,490,000	\$ 19,035,000	\$ 6,280,000	\$ 12,755,000
The Bonds				6,200,000
The Bonds and Remaining Outstanding Bonds				\$ 18,955,000



## **Refunded Bonds**

Proceeds of the Bonds together with available debt service funds, if any, will be applied to refund and defease the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

<u>Maturity Date</u>	<u>Series</u>	<u>Maturity Date</u>	<u>Series</u>
<u>April 1</u>	<u>2008</u>	<u>April 1</u>	<u>2011</u>
2020	\$ 100,000 (a)	2020	\$ -
2021	100,000 (a)	2021	-
2022	100,000 (b)	2022	475,000
2023	255,000 (b)	2023	360,000
2024	270,000 (c)	2024	380,000
2025	280,000 (c)	2025	405,000
2026	300,000 (d)	2026	425,000
2027	315,000 (d)	2027	450,000
2028	330,000 (e)	2028	480,000
2029	350,000 (e)	2029	505,000
	<u>\$ 2,400,000</u>	2030	<u>400,000</u>
			<u>\$ 3,880,000</u>

Redemption Date: 4/5/2019      Redemption Date: 4/5/2019

- (a) Represents a term bond in the total principal amount of \$200,000, scheduled to mature on April 1, 2021.
- (b) Represents a term bond in the total principal amount of \$355,000, scheduled to mature on April 1, 2023.
- (c) Represents a term bond in the total principal amount of \$550,000, scheduled to mature on April 1, 2025.
- (d) Represents a term bond in the total principal amount of \$615,000, scheduled to mature on April 1, 2027.
- (e) Represents a term bond in the total principal amount of \$680,000, scheduled to mature on April 1, 2029.

## **Escrow Agreement**

The Refunded Bonds, and the interest due thereon, are to be paid on their scheduled interest payment dates until final payment or their redemption date from funds to be deposited with Regions Bank, Houston, Texas, as escrow agent (the "Escrow Agent").

The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the "Escrow Agreement") to be dated as of the date of the sale of the Bonds but effective on the date of delivery of the Bonds (expected to be March 28, 2019). The Bond Order further provides that from the proceeds of the sale of the Bonds, along with certain other lawfully available funds of the District, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds or the Remaining Outstanding Bonds.

## **Defeasance of the Refunded Bonds**

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the orders authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in the Escrow Fund.

**Sources and Uses of Funds**

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, will be applied as follows:

Sources of Funds:

Principal Amount of the Bonds .....	\$6,200,00.00
Plus: Net Premium on the Bonds .....	324,729.75
Plus: Transfer from Debt Service Fund .....	116,000.00
Total Sources of Funds.....	<u>\$6,640,729.75</u>

Uses of Funds:

Deposit to Escrow Fund.....	\$6,421,325.42
Issuance Expenses and Underwriters' Discount (a).....	219,404.33
Total Uses of Funds .....	<u>\$6,640,729.75</u>

(a) Includes municipal bond insurance premium.

**DEBT SERVICE REQUIREMENTS**

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$6,280,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2019	\$ 1,653,569	\$ 276,506		\$ 128,949	\$ 128,949	\$ 1,506,012
2020	1,661,306	374,131	\$ 110,000	218,856	328,856	1,616,031
2021	1,656,156	369,381	110,000	214,456	324,456	1,611,231
2022	1,666,075	830,069	585,000	200,556	785,556	1,621,563
2023	1,670,791	844,716	620,000	176,456	796,456	1,622,531
2024	1,672,681	852,119	655,000	150,956	805,956	1,626,519
2025	1,677,469	858,013	690,000	124,056	814,056	1,633,513
2026	1,670,153	867,009	720,000	102,156	822,156	1,625,300
2027	1,660,803	873,972	750,000	79,056	829,056	1,615,888
2028	1,664,088	883,769	785,000	53,753	838,753	1,619,072
2029	1,669,163	891,263	820,000	27,050	847,050	1,624,950
2030	1,611,213	408,500	355,000	5,325	360,325	1,563,038
2031	1,623,250					1,623,250
2032	871,919					871,919
2033	875,050					875,050
2034	881,688					881,688
2035	243,600					243,600
Total	\$ 24,428,972	\$ 8,329,447	\$ 6,200,000	\$ 1,481,628	\$ 7,681,628	\$ 23,781,153

Maximum Annual Debt Service Requirement (2025) .....	\$1,633,513
Average Annual Debt Service Requirements (2019-2035).....	\$1,398,891

## THE BONDS

### **General**

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

### **Description**

The Bonds will be dated March 1, 2019, with interest payable on October 1, 2019, and on each April 1 and October 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds initially accrues from March 1, 2019, and thereafter, from the most recent Interest Payment Date. The Bonds mature on April 1 of the years and in the amounts shown under "MATURITIES-PRINCIPAL AMOUNTS, INTEREST RATES AND REOFFERING YIELDS" on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "BOOK-ENTRY-ONLY SYSTEM." Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

### **Authority for Issuance**

At elections held within the District on May 6, 1995 and November 5, 2013, voters of the District authorized a total of \$27,000,000 in unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District. The Bonds are issued by the District pursuant to said election held on May 6, 1995, and to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; and City of Houston Ordinance No. 97-416.

### **Source and Security for Payment**

The Bonds, together with the Remaining Outstanding Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See "TAXING PROCEDURES". Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See "INVESTMENT CONSIDERATIONS." The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, Fort Bend County, the State of Texas, or any political subdivision or entity other than the District.

### **Funds**

The Bond Order confirms the establishment of the District's Bond Fund (the "Bond Fund") which was created and established pursuant to the order(s) of the Board of Directors of the District authorizing the issuance of the Outstanding Bonds and other previously issued bonds. Accrued interest on the Bonds will be deposited from the proceeds from the sale of the Bonds into the Bond Fund. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Bonds, the Remaining Outstanding Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds, the Remaining Outstanding Bonds and any of the District's duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Bond Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, the Remaining Outstanding Bonds, and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

### **Record Date**

The record date for payment of the interest on any regularly scheduled interest payment date is defined as the 15th day of the month (whether or not a business day) preceding such interest payment date.

### **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on and after April 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on April 1, 2025, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY-ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

### **Method of Payment of Principal and Interest**

The Board has appointed Regions Bank, Houston, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

### **Registration**

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District.

### **Replacement of Paying Agent/Registrar**

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

The following is quoted from Section 49.186 of the Texas Water Code, and is applicable to the District:

"(a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.

(b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them."

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations or investment criteria which apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

### **Issuance of Additional Debt**

The District's voters have authorized the issuance of a total of \$39,600,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. The District currently has \$9,985,000 of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized a total of \$27,000,000 unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. After issuance of the Bonds, the District will have \$26,463,347.28 of unlimited tax refunding bonds authorized but unissued.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the Commission; and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

### **Financing Road Facilities**

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for "road powers" or calling such an election at this time. Issuance of bonds for roads could dilute the investment security for the Bonds.

### **Financing Recreational Facilities**

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the Commission in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

The District has not considered calling an election for such purposes but could consider doing so in the future.

Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

## **Annexation**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Effective December 1, 2017, such requirements may include the requirement that the City of Houston hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds and the Remaining Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever attempt to annex the District for full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined) between the District and the City of Houston, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. See "THE DISTRICT—Strategic Partnership Agreement." The District could consent to a full purpose annexation prior to that time by agreeing to amend the SPA to such effect, however, the District currently has no intention to do so.

## **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes and other obligations. If each district assumes the other's bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

## **Remedies in Event of Default**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies may also not be available. See "INVESTMENT CONSIDERATIONS- Registered Owners' Remedies".

## **Defeasance**

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the District payable from revenues or from ad valorem taxes or both, or a commercial bank or trust company designated in the proceedings authorizing such discharge, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as currently permitted under Texas law.

### **BOOK-ENTRY-ONLY SYSTEM**

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Principal, premium, if any, interest payments and redemption proceeds on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

## **THE DISTRICT**

### **General**

The District is a municipal utility district created by an order of the Texas Natural Resource Conservation Commission, a predecessor to the Commission, dated February 17, 1995, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston (except as described below under "Strategic Partnership Agreement"), is subject to the continuing supervisory jurisdiction of the Commission.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, separately or jointly with one or more conservation and reclamation districts, municipalities or other political subdivisions, after approval by the Commission and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and may also, subject to the granting of road powers by the Commission and certain limitations, develop and finance roads. See "THE BONDS-Issuance of Additional Debt" and "Financing Recreational Facilities" and "Financing Road Facilities".



The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to finance the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road and fire-fighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Houston and filed in the real property records of Harris County and Fort Bend County. The District is also required to obtain certain Commission approvals prior to acquiring, constructing and financing road and fire-fighting facilities, as well as voter approval of the issuance of bonds for said purposes and/or for the purposes of financing recreational facilities. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

### **Strategic Partnership Agreement**

The District and the City of Houston (the "City") have entered into a Third Amended and Restated Strategic Partnership Agreement dated effective December 31, 2018 (the "SPA") pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a "limited purpose annexation" for that portion of the District which is developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for "full purposes" for at least thirty (30) years from the effective date of the original SPA dated effective as of December 4, 2009. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and drainage facilities must be assumed by the City to the maximum extent permitted by Commission rules. The procedures for full purpose annexation under the SPA may differ from those otherwise applicable under Chapter 43, Texas Local Government Code, including any requirements for an election. See "THE BONDS—Annexation."

As of the effective date of the SPA, the City was authorized to impose the one percent (1%) City sales and use tax within the portion of the District included in the limited purpose annexation. Such portion includes primarily the approximately 110 acres of retail and commercial development within the District. The City pays to the District an amount equal to one half (1/2) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (the "Sales Tax Revenue"). Pursuant to State law, the District is authorized to use Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds or the Remaining Outstanding Bonds.

### **Description and Location**

The District is located in Harris and Fort Bend Counties, approximately 26 miles west of the central downtown business district of the City of Houston and contains approximately 478 acres of land. The District has indicated its intent to annex an approximately 4 acre tract of land into the District. Access to the District is provided by State Highway 99 (Grand Parkway), Westheimer Parkway and Bayhill Boulevard. The District is located entirely within the extraterritorial jurisdiction of the City of Houston and within the boundaries of the Katy Independent School District.

### **Residential Development**

Residential development in the District currently includes Falcon Landing, Sections One, and Three through Ten, and Katy Creek Ranch, Sections One through Nine. Development within the District includes 1,334 single-family residential lots on approximately 307 acres. As of December 5, 2018, 1,320 homes were completed and occupied and 12 homes were completed and unoccupied.

### **Commercial Development**

Approximately 70 acres have been developed for commercial purposes. Commercial development includes a Kroger Grocery Store with an adjacent 18,300 square foot retail center, a Kroger's gas station, a Wells Fargo Bank and a Jack in the Box occupying pad sites. Commercial development also includes 2 small retail centers which are occupied by restaurants, title companies, a flooring company, an Avis Rental Car facility, and several nail and hair salons. A Christian Brothers Automotive, a Good Year Tire Store, a Traditions Bank, a Kwik Kar Lube and Tune, a Shell Service Station, which includes a McDonald's restaurant, a Timewise convenience store and gas station, a swim academy, a funeral home, a Walmart Neighborhood Market and the Westwood Gymnastics facility have also been constructed in the District. Marcel Commons Retail, LLC and Marcel Commons Retail Pad, LLC (collectively, "Marcel Commons") have built commercial improvements on four tracts of land cumulatively totaling 4.608 acres of land. Marcel Commons 2 includes a retail center and office building constructed on approximately 10 acres of land. Solea Cinco Ranch, an active adult apartment complex, has been constructed on approximately 9 acres of land.

### **Other Development**

The Westland Baptist Church and the Church of the Holy Apostles have been constructed on approximately 26 acres. The property of both churches is exempt from taxation by the District.

## **Undeveloped Acreage**

There are approximately 10 acres of developable land in the District which are not currently provided with storm drainage facilities and approximately 44 acres that are undevelopable.

## **MANAGEMENT OF THE DISTRICT**

### **Board of Directors**

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms in May of even numbered years only. All of the Board members either reside or own property within the District. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jack R. Wells, Jr.	President	May 2020
Elizabeth Cabellero	Vice President	May 2022
Patrice Castillo	Secretary	May 2022
Ronald Boatman, Jr.	Assistant Secretary	May 2022
David Glunt	Director	May 2020

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

### **Bond Counsel and General Counsel**

Schwartz, Page & Harding, L.L.P. ("Bond Counsel") serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

### **Financial Advisor**

Masterson Advisors LLC serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

### **Tax Assessor/Collector**

Land and improvements in the District are appraised for taxation by the Fort Bend Central Appraisal District ("FBCAD") for properties located within Fort Bend County and the Harris County Appraisal District ("HCAD") for properties located within Harris County. The District contracts with B&A Municipal Tax Services, LLC to act as Tax Assessor/Collector for the District.

### **System Operator**

The District contracts with Municipal District Services, LLC for maintenance and operation of the District's system.

### **Bookkeeper**

The District contracts with Municipal Accounts & Consulting, L.P. for bookkeeping services for the District.

### **Engineer**

Van De Wiele & Vogler Incorporated (the "Engineer") provides consulting engineering services to the District.

## **Auditor**

The financial statements of the District as of and for the fiscal year ended December 31, 2017, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX A.”

## **THE SYSTEM**

### **Regulation**

According to the Engineer, the District's water distribution, wastewater collection, and storm drainage facilities (collectively, the “System”) have been designed in accordance with accepted engineering practices and the then current requirements of various agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction and operation of the System was to be accomplished in accordance with the standards and specifications and requirements of such entities and is subject to inspection by each such entity. The Commission exercises continuing supervisory authority over the District. Discharge of treated sewage is subject to the regulatory authority of the Commission and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of Harris County, Fort Bend County and, in some instances, the Commission. Harris County, Fort Bend County, the City of Houston, and the Texas Department of Health also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. In particular, additional or revised requirements in connection with any permit for the wastewater treatment plant which provides service to the District beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by the District's Engineer.

### **Water Distribution and Sanitary Sewer Collection and Drainage System**

The District's System includes water, sanitary sewer and drainage facilities to serve the subdivisions described under the sections “THE DISTRICT—Residential Development; Commercial Development and Other Development.”

### **Water Supply**

Water supply for the District is provided by two water plants jointly owned with Harris – Fort Bend Counties Municipal Utility District No. 1 (“H-FBCMUD No. 1”), and operated by the District which are capable of serving 3,450 equivalent single family connections (“esfcs”), of which the District owns 2,109 esfcs. Water Plant No. 1 and Water Plant No. 2 each has a 1,225 gallon per minute (“gpm”) well. The District's water supply facilities include 60,000 gallons of pressure tank capacity, 1,050,000 gallons of ground storage capacity and 7,450 gpm booster pump capacity. The District's water system is currently serving approximately 1,600 esfcs in the District.

The District and H-FBCMUD No. 1 have an emergency water supply interconnect with Fort Bend County Municipal Utility District No. 37, Fort Bend County Municipal Utility District No. 185 and with Harris – Fort Bend Counties Municipal Utility District No. 3.

### **Subsidence District Requirements**

The water production facilities operated by the District and serving H-FBCMUD No. 1 and the District are within the boundaries of the Fort Bend Subsidence District (the “Subsidence District”), which regulates groundwater withdrawal. On September 24, 2003, the Subsidence District adopted a Regulatory Plan (the “Regulatory Plan”) to reduce groundwater withdrawal through the conversion to surface water or other alternative water sources in certain areas within FBSD's jurisdiction. In 2005, the Texas legislature created the North Fort Bend Water Authority (the “Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Fort Bend County (including the District) and a small portion of Harris County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas (“Houston”) to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District and H-FBCMUD No. 1 are included within the Authority's GRP.

The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees imposed on the District for groundwater pumped by the District), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District, and a rate per 1,000 gallons based on the amount, if any, of surface water received from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2025 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2014; and (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2025. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a disincentive fee penalty of \$6.50 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 40% of the total annual water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates that such fees will increase and the need to continue passing such fees through to its customers through higher water and sewer rates. In addition, conversion to surface water could necessitate improvements to the District's water supply system which could require issuance of additional bonds. In the event the Authority fails to reduce groundwater withdrawal to the levels specified in the Regulatory Plan by the deadlines established by the Subsidence District, then the District and others within the Authority's GRP group will be required to pay a disincentive fee on withdrawn groundwater. The District expects it would need to pass such fee through to its customers through higher water and sewer rates or with portions of its maintenance tax proceeds. This fee would be in addition to the Authority's fee.

### **Wastewater Treatment Facilities**

The District and H-FBCMUD No. 1 jointly own a wastewater treatment plant which currently has capacity to treat 995,000 gallons per day. The District's allocated capacity in the wastewater treatment plant is 60.63%, which is sufficient to serve 2,087 esfc. The District is currently serving approximately 1,514 esfc.

### **100-Year Flood Plain**

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years.

Approximately 2.8 acres of the Katy Creek Ranch development was located in the 100-year flood plain according to the Federal Emergency Management Agency ("FEMA") Flood Insurance Rate Map dated January 3, 1997. A request for a Conditional Letter of Map Revision ("CLOMR") was submitted to Fort Bend County and FEMA. A CLOMR was approved and a Letter of Map Revision was issued. As additional development within the District is proposed in the flood plain, fill is used to remove the area from the flood plain and a LOMR is submitted to revise the flood plain maps. There is approximately 10 acres of remaining undeveloped property in the Katy Creek Ranch development located in the 100-year flood plain according to the FEMA Flood Insurance Rate Map revised February 14, 2017. See "INVESTMENT CONSIDERATIONS—Recent Extreme Weather Events; Hurricane Harvey."

## WATER AND SEWER OPERATIONS

### General

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, if any, derived from the District's operations are not pledged to the payment of the Bonds, but are available for any lawful purpose including payment of debt service on the Bonds, at the discretion and upon action of the Board. It is not anticipated that any revenues will be available for the payment of debt service on the Bonds.

### Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the District's audited financial statements and the District's bookkeeper's records for the year ended December 31, 2018. Reference is made to such records and statements for further and more complete information.

	UNAUDITED	Fiscal Year Ended December 31				
		2018 (a)	2017	2016	2015	2014
<b>Revenues</b>						
Property Taxes	\$ 495,217	\$ 467,281	\$ 436,198	\$ 465,003	\$ 272,681	
City of Houston Tax Rebates	168,096	161,011	163,385	144,900	117,830	
Service Revenue	1,018,152	1,045,708	1,046,064	1,042,256	1,021,814	
Regional Water Fee	503,368	496,757	464,075	407,156	373,416	
Penalty and Interest	31,940	31,990	40,774	37,065	33,822	
Tap Connection and Inspection Fees	365,515	20,235	71,630	169,070	70,120	
Investment Income	73,195	35,341	22,640	15,458	13,611	
Other Income	226,263	43,851	23,318	21,241	28,163	
<b>Total Revenues</b>	<b>\$ 2,881,746</b>	<b>\$ 2,302,174</b>	<b>\$ 2,268,084</b>	<b>\$ 2,302,149</b>	<b>\$ 1,931,457</b>	
<b>Expenditures</b>						
Purchased Water Service	\$ 419,017	\$ 508,545	\$ 392,945	\$ 351,720	\$ 341,420	
Professional Fees	143,959	200,451	184,908	155,804	147,208	
Contracted Services	458,105	360,226	356,462	347,528	328,005	
Utilities	4,843	4,107	3,076	2,337	2,252	
Repairs and Maintenance	103,647	253,639	171,425	193,433	304,070	
Other Expenditures	160,788	102,094	121,636	142,951	83,068	
Authority Pumpage Fees	520,006	514,628	483,589	422,324	388,881	
Tap Connections	126,152	-	25,860	58,100	23,220	
Capital Outlay	322,728	859,822	27,746	20,281	112,283	
<b>Total Expenditures</b>	<b>\$ 2,259,244</b>	<b>\$ 2,803,512</b>	<b>\$ 1,767,647</b>	<b>\$ 1,694,478</b>	<b>\$ 1,730,407</b>	
<b>Net Revenues</b>	<b>\$ 622,502</b>	<b>\$ (501,338)</b>	<b>\$ 500,437</b>	<b>\$ 607,671</b>	<b>\$ 201,050</b>	
<b>Other Sources (Interfund Transfer)</b>	<b>\$ 160,692</b>	<b>\$ 74,193</b>	<b>\$ 99,160</b>	<b>\$ 19,871</b>	<b>\$ 82,320</b>	
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 4,092,437</b>	<b>\$ 4,519,582</b>	<b>\$ 3,919,985</b>	<b>\$ 3,292,443</b>	<b>\$ 3,009,073</b>	
<b>Fund Balance (End of Year)</b>	<b>\$ 4,875,631</b>	<b>\$ 4,092,437</b>	<b>\$ 4,519,582</b>	<b>\$ 3,919,985</b>	<b>\$ 3,292,443</b>	

(a) Unaudited. Provided by the District's bookkeeper.

## FINANCIAL STATEMENT (UNAUDITED)

2018 Certified Taxable Assessed Valuation .....	\$428,790,833 (a)
Gross Direct Debt Outstanding .....	\$18,955,000 (b)
Estimated Overlapping Debt .....	25,888,816 (c)
Gross Direct Debt and Estimated Overlapping Debt .....	\$44,843,816
Ratios of Gross Direct Debt to:	
2018 Certified Taxable Assessed Valuation .....	4.42%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2018 Certified Taxable Assessed Valuation.....	10.46%
Debt Service Funds Available as of January 16, 2019.....	
Operating Funds Available as of January 16, 2019 .....	\$1,741,029 (d)
Capital Projects Funds Available as of January 16, 2019 .....	\$4,752,060
Capital Projects Funds Available as of January 16, 2019 .....	\$549,960

- (a) The Harris County Appraisal District ("HCAD") has certified \$12,270,956 of taxable value on the properties located within the District in Harris County. The Fort Bend Central Appraisal District ("FBCAD") has certified \$416,519,877 on the properties located within the District in Fort Bend County. See "TAXING PROCEDURES."
- (b) After the issuance of the Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "Overlapping Taxes."
- (d) The District will apply \$116,000 of this balance to the refunding of the Refunded Bonds.

### District Investment Policy

The policy of the District is to invest District funds only in instruments which further the following investment objectives of the District stated in order of importance: (1) preservation and safety of principal; (2) liquidity; and (3) yield. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

## ESTIMATED OVERLAPPING DEBT STATEMENT

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas or other publicly available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance, and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Fort Bend County.....	\$ 593,424,527	12/31/2018	0.64%	\$ 3,803,996
Harris County.....	2,050,758,022	12/31/2018	0.10%	1,951,353
Harris County Flood Control District.....	83,075,000	12/31/2018	0.10%	80,734
Harris County Hospital District.....	59,490,000	12/31/2018	0.10%	57,805
Harris County Department of Education.....	6,555,000	12/31/2018	0.10%	6,236
Port of Houston Authority.....	593,754,397	12/31/2018	0.10%	577,077
Katy Independent School District.....	1,732,430,000	12/31/2018	1.12%	19,411,615
Total Estimated Overlapping Debt.....				\$ 25,888,816
The District.....	18,955,000 (a)	Current	100.00%	18,955,000
Total Direct and Estimated Overlapping Debt.....				\$ 44,843,816
Direct and Estimated Overlapping Debt as a Percentage of:				
2018 Certified Taxable Assessed Valuation of \$428,790,833.....				10.46%

(a) Includes the Bonds and the Remaining Outstanding Bonds.

**Overlapping Taxes for 2018**

<u>Overlapping Entity</u>	2018 Tax Rate per \$100 of Assessed Valuation <u>(Fort Bend County)</u>	2018 Tax Rate per \$100 of Assessed Valuation <u>(Harris County)</u>
Fort Bend County	\$ 0.464000	
Harris County (a)		\$ 0.635180
Katy Independent School District	1.516600	1.516600
Harris County ESD No. 48		0.100000
The District	<u>0.505000</u>	<u>0.505000</u>
Total	\$ 2.485600	\$ 2.756780

(a) Includes Harris County, Harris County Hospital District, Harris County Dept. of Education, Harris County Flood Control District and Port of Houston Authority.

**TAX DATA**

**Historical Tax Collections**

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See "Tax Roll Information" below.

Tax Year	Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of January 31, 2018 (a)	
				Amount	Percent
2014	\$ 310,702,647	\$ 0.6500	\$ 2,019,567	\$ 2,018,934	99.97%
2015	363,949,231	0.5900	2,147,224	2,146,927	99.99%
2016	390,173,481	0.5400	2,106,520	2,102,411	99.80%
2017	411,196,168	0.5150	2,117,276	2,109,096	99.61%
2018	428,790,833	0.5050	\$ 2,165,394	2,066,554	95.44%

- (a) Unaudited.  
(b) In process of collection.

Taxes are due upon receipt of a bill therefor and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21<sup>st</sup> day after such taxes are billed. Split payments, discounts, installments, and postponement of the delivery date are allowed under circumstances. See "TAX PROCEDURES – Levy and Collection of Taxes."

**Historical Tax Rate Distribution**

	2018	2017	2016	2015	2014
Debt Service	\$ 0.3850	\$ 0.3950	\$ 0.4200	\$ 0.4700	\$ 0.5000
Maintenance and Operations	\$ 0.1200	\$ 0.1200	\$ 0.1200	\$ 0.1200	\$ 0.1500
Total	<u>\$ 0.5050</u>	<u>\$ 0.5150</u>	<u>\$ 0.5400</u>	<u>\$ 0.5900</u>	<u>\$ 0.6500</u>

**Tax Rate Limitations**

Debt Service: Unlimited (no legal limit as to rate or amount).  
Maintenance: \$1.00 per \$100 Assessed Valuation.

## Debt Service Tax

The District will covenant in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax which, when added to other funds legally available to the District for payment of outstanding debt obligations, is adequate to provide funds to pay the principal of and interest on such debt.

## Maintenance Tax

The District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. On May 6, 1995, voters in the District authorized the Board to levy such a maintenance tax in an amount not to exceed \$1.00 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, the Remaining Outstanding Bonds and any additional unlimited tax bonds which may be issued in the future. The District levied a maintenance tax for 2018 in the amount of \$0.12 per \$100 assessed valuation.

## Summary of Assessed Valuation

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2014 through 2018 Certified Taxable Assessed Valuation. No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. Differences in values from other information herein are due to differences in dates of information provided.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land	\$ 111,306,958	\$ 92,661,958	\$ 89,096,069	\$ 85,799,148	\$ 73,474,432
Improvements	346,112,065	344,584,818	325,981,348	286,338,472	243,376,566
Personal Property	19,531,832	18,904,108	19,936,779	12,061,436	9,017,031
Exemptions	(48,246,827)	(44,954,716)	(44,840,715)	(20,249,825)	(15,165,382)
Total	<u>\$ 428,704,028</u>	<u>\$ 411,196,168</u>	<u>\$ 390,173,481</u>	<u>\$ 363,949,231</u>	<u>\$ 310,702,647</u>

## Principal Taxpayers

The following table represents the ten principal taxpayers, the taxable appraised value of such property, and such property's taxable assessed value as a percentage of the 2018 Certified Taxable Assessed Valuation of \$428,790,833. This represents ownership as of January 1, 2018.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>% of 2018 Certified Taxable Assessed Valuation</u>
Kroger Texas LP	Land, Improvements & Personal	\$ 13,154,660	3.07%
Mosaic Retail LLC	Land and Improvements	6,444,604	1.50%
Grand Parkway Crossing LLC	Land and Improvements	6,231,339	1.45%
Marcel Plaza of Katy LLC	Land and Improvements	5,936,084	1.38%
Almanara Texas Inc.	Land and Improvements	5,400,540	1.26%
Katy W-M LLC	Land and Improvements	4,697,520	1.10%
Katy Parkway Market LLC	Land	4,497,480	1.05%
Laaco Ltd	Land, Improvements & Personal	4,405,860	1.03%
Marcel Commons Office Katy LLC	Land and Improvements	4,063,020	0.95%
Avis Rent A Car System LLC	Personal	3,844,000	0.90%
Total		<u>\$ 58,675,107</u>	<u>13.68%</u>



**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2018 Certified Taxable Assessed Valuation of \$428,790,833 which is subject to review and adjustment prior to certification. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "PLAN OF FINANCING—Debt Service Requirements" and "INVESTMENT CONSIDERATIONS—Maximum Impact on District Tax Rate."

Average Annual Debt Service Requirement (2019-2035) .....	\$1,398,891
\$0.35 Tax Rate on the 2018 Certified Taxable Assessed Valuation .....	\$1,425,730
Maximum Annual Debt Service Requirement (2025).....	\$1,633,513
\$0.41 Tax Rate on the 2018 Certified Taxable Assessed Valuation .....	\$1,670,140

**TAXING PROCEDURES**

**Property Tax Code and County-Wide Appraisal District**

The Texas Tax Code (the "Property Tax Code") requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The District is located in Harris County and Fort Bend County. The Harris County Appraisal District has the responsibility for appraising property in the District located within Harris County and the Fort Bend Central Appraisal District has the responsibility for appraising property in the District located within Fort Bend County. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board or the Fort Bend County Appraisal Review Board, as applicable. Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of said appraisal review boards by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by either the Harris County Appraisal District or the Fort Bend Central Appraisal District, as applicable, and approved by the applicable appraisal review board, must be used by each taxing jurisdiction in establishing its tax roll and rate. The District is eligible, along with all other conservation and reclamation district within Harris County and Fort Bend County, to participate in the nomination of and vote for a member of the Board of Directors of each county's respective appraisal district.

**Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2019 tax year, the District has granted an exemption of \$10,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant

exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of a member of (i) a member of the armed forces or, effective January 1, 2018, (ii) a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

### **General Residential Homestead Exemption**

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000 if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2018 tax year, the District has granted a 10% general residential homestead exemption. The total value of the general residential homestead exemption for 2018 was \$24,523,622. The District has adopted an order granting a 10% general residential homestead exemption for the 2019 tax year.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

## **District and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the level of appraisal of a certain category of property, the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption. The District may not, however, protest a valuation of any individual property.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

## **Agricultural, Open Space, Timberland and Inventory Deferment**

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) to five (5) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2018, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

## **Tax Abatement**

The City of Houston, Harris County and Fort Bend County may designate all or part of the District as a reinvestment zone, and the District, Harris County and Fort Bend County, and (if it were to annex the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

## **Levy and Collection of Taxes**

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of

the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

### **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1, of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units (see "ESTIMATED OVERLAPPING DEBT STATEMENT"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law, and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS--Tax Collection Limitations."

## **INVESTMENT CONSIDERATIONS**

### **General**

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, Fort Bend County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies" and "Bankruptcy Limitations to Registered Owners Remedies" below.

### **Recent Extreme Weather Events; Hurricane Harvey**

The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015. The most recent event was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the Operator, there was no interruption of water and sewer service as a result of Hurricane Harvey. According to the Engineer, the District's Water Plant No. 2 sustained flood damage that caused the plant to lose power, including backup power from the outside generator, during Hurricane Harvey. Water Plant No. 2 was put back online and is fully functional. To the knowledge of the District, approximately 30 homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

### **Specific Flood Type Risks**

*Ponding (or Pluvial) Flood.* Ponding, or pluvial, flooding occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can exceed the drainage capacity of a drainage system, which may result in water within the drainage system becoming trapped and diverted onto streets and nearby property until it is able to reach a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee or reservoir.

*Riverine (or Fluvial) Flood.* Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

### **Economic Factors**

A substantial percentage of the taxable value of the District results from the current market value of single-family residences. The market value of such properties is related to general economic conditions affecting the demand for such properties. See "THE DISTRICT—Status of Development."

### **Future Debt**

The District reserves in the Bond Order the right to issue the \$9,985,000 in principal amount of authorized but unissued unlimited tax bonds for the purpose of acquiring or constructing water, sanitary and drainage facilities and the \$26,463,347.28 in principal amount of authorized but unissued unlimited tax refunding bonds remaining after the issuance of the Bonds. The District's voters may authorize additional bonds. See "THE BONDS—Issuance of Additional Debt," "— Financing Roads," and "—Financing Recreational Facilities." The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board and any bonds issued to acquire or construct water, sanitary sewer and drainage facilities or recreational facilities must be approved by the Commission. The District can make no representation that any additional development will occur within the District.

In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS— Issuance of Additional Debt."

## **Tax Collection Limitations**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedure against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAX PROCEDURES—District's Rights in the Event of Tax Delinquencies."

## **Registered Owners Remedies**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Beneficial Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Beneficial Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Beneficial Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Beneficial Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Beneficial Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

## **Bankruptcy Limitation to Registered Owners' Rights**

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (1) is authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, the District must also obtain the approval of the Commission prior to filing bankruptcy. Such law requires that the Commission investigate the financial conditions of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning District relief from its creditors. While such a decision might be appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

If the District decides in the future to proceed voluntarily under the federal Bankruptcy Code, the District could develop and file a plan for the adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect the Registered Owners by reducing or eliminating the interest rate or the principal amount, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of such Registered Owner's claim against the District.

A district may not be forced into bankruptcy involuntarily.

## **Environmental Regulation and Air Quality**

Wastewater treatment, water supply, storm sewer facilities and construction activities within the District are subject to complex environmental laws and regulations at the federal, state and local levels that may require or prohibit certain activities that affect the environment, such as:

- Requiring permits for construction and operation of water wells, wastewater treatment and other facilities;
- Restricting the manner in which wastes are treated and released into the air, water and soils;
- Restricting or regulating the use of wetlands or other properties; or
- Requiring remedial action to prevent or mitigate pollution.

Sanctions against a municipal utility district or other type of special purpose district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements and issuance of injunctions to ensure future compliance. Environmental laws and compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Environmental laws can also inhibit growth and development within the District. Further, changes in regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

*Air Quality Issues.* Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”)) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (“the 1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (“the 2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (“the 2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

The HGB area is currently designated as a severe ozone nonattainment area under the the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area “anti-backsliding” requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, EPA approved the TCEQ’s “redesignation substitute” for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB area under the 1997 Ozone Standard. The court has not responded to EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court’s ruling, the TCEQ has developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more-stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard. For purposes of the 2015 Ozone Standard, the HGB area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA's ozone standards, the TCEQ has established a state implementation plan ("SIP") for the HGB area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB area to reach attainment with the ozone standards by the EPA's attainment deadlines. These additional controls could have a negative impact on the HGB area's economic growth and development.

*Water Supply & Discharge Issues.* Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) public water supply systems, (2) waste water discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act ("SDWA") and Environmental Protection Agency's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district's ability to obtain and maintain compliance with TPDES permits.

In 2015, the EPA and the United States Army Corps of Engineers ("USACE") promulgated a rule known as the Clean Water Rule ("CWR") aimed at redefining "waters of the United States" over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expands the scope of the federal government's CWA jurisdiction over intrastate water bodies and wetlands. The CWR could have an adverse impact on municipal utility districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of "waters of the United States." In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of "waters of the United States" to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of "waters of the United States." Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved.

On December 11, 2018, the EPA and USACE released the proposed replacement definition of "waters of the United States." The proposed definition outlines six categories of waters that would be considered "waters of the United States," including traditional navigable waters, tributaries to those waters, certain ditches, certain lakes and ponds, impoundments of jurisdictional waters, and wetlands adjacent to jurisdictional waters. The proposed rule also details what are not "waters of the United States," such as features that only contain water during or in response to rainfall (e.g., ephemeral features); groundwater; many ditches, including most roadside or farm ditches; prior converted cropland; stormwater control features; and waste treatment systems. The agencies will take comment on the proposal for 60 days after publication in the Federal Register. If finalized, the proposed rule would apply nationwide, replacing the patchwork framework for Clean Water Act jurisdiction that has resulted from litigation challenging the CWR.



Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including permitting requirements.

The Commission renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on January 24, 2019. The MS4 permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems (“MS4s”). The District is not currently subject to the required MS4 Permit. In the event the District becomes subject to the renewed MS4 Permit, it is anticipated that the District could incur substantial costs to develop and implement the required plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the renewed MS4 Permit.

### **Marketability of the Bonds**

The District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market.

### **Continuing Compliance with Certain Covenants**

Failure of the District to comply with certain covenants contained in the Bond Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

### **Risk Factors Related to the Purchase of Municipal Bond Insurance**

The District has entered into an agreement with BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

The long-term ratings on the Bonds are dependent in part on the financial strength of the insurer (the “Insurer”) and its claims paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Insurer and of the ratings on the Bonds insured by the Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The obligations of the Insurer are contractual obligations and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District nor the Underwriter have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Insurer, particularly over the life of the investment.

### **Changes in Tax Legislation**

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, may also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

### **2019 Legislative Session**

The 86<sup>th</sup> Regular Legislative Session convened on January 8, 2019, and will conclude on May 27, 2019. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which could adversely affect the marketability or market value of the Bonds. The Governor of Texas has declared property tax reform as an emergency item for the legislative session, with the result that any property tax reform legislation may become effective within the first 60 days of the legislative session. In addition, the Governor may call one or more additional special sessions that may include legislation affecting property taxes. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

## MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. S&P has also assigned an underlying credit rating of "A-" to the Bonds without regard to credit enhancement. An explanation of the rating may be obtained from S&P.

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## MUNICIPAL BOND INSURANCE

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as APPENDIX B to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$526 million, \$113 million and \$414 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE."

#### *Additional Information Available from BAM*

*Credit Insights Videos.* For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditsights/](http://buildamerica.com/creditsights/). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

*Credit Profiles.* Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

*Disclaimers.* The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. The District will also furnish the legal opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel to the District, to the effect that interest on the Bonds is excludable from gross income of the owners for federal income tax purposes under existing law and not subject to the alternative minimum tax on individuals.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel and Special Tax Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **Legal Review**

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections "Plan of Financing – Escrow Agreement," and – "Defeasance of the Refunded Bonds" (but only insofar as such section relates to the legal opinion of Bond Counsel), "THE BONDS," "THE DISTRICT - General," - "Strategic Partnership Agreement" and – "Management of the District - Bond Counsel and General Counsel," "TAXING PROCEDURES," and "LEGAL MATTERS – Legal Opinions" (insofar as such section relates to the opinion of Bond Counsel) solely to determine whether such information fairly summarizes the law and documents referred to therein. In its capacity as Special Tax Counsel, McCall, Parkhurst & Horton L.L.P, Dallas, Texas has reviewed the information appearing in this Official Statement under the caption "LEGAL MATTERS – Legal Opinions" (insofar as such section relates to the opinion of Special Tax Counsel) and "TAX MATTERS" solely to determine whether such information fairly summarizes the law referred to therein. Such firms have not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Special Tax Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering their opinion, Special Tax Counsel will rely upon (a) the opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, that the Bonds are valid and binding obligations of the District payable from the proceeds of a generally-applicable ad valorem tax, (b) the District's federal tax certificate and the verification report prepared by Public Finance Partners LLC, Certified Public Accountants and (c) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the District, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

Special Tax Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Special Tax Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Special Tax Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

## **Federal Income Tax Accounting Treatment of Original Issue Discount**

The Underwriter has represented that the initial public offering price to be paid for the Bonds (the “Original Issue Discount Bonds”), as stated on the cover of the Official Statement, is less than the principal amount thereof. As such, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period for which such Original Issue Discount Bond continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

## **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law which is subject to change or modification retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals otherwise allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

## **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

## **Qualified Tax-Exempt Obligations**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on- behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be “qualified tax-exempt obligations.”**

## **VERIFICATION OF MATHEMATICAL CALCULATIONS**

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds deposited with the Escrow Agent as per the Escrow Agreement for the payment of the Refunded Bonds; (b) the mathematical computations of yield; and (c) compliance with City of Houston Ordinance No. 97-416.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District’s retained advisors, consultants or legal counsel.

## **REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS**

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction.

The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

## **NO MATERIAL ADVERSE CHANGE**

The obligations of the Initial Purchaser to take and pay for the Bonds, and the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of the sale.

## NO-LITIGATION CERTIFICATE

With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Initial Purchaser a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

## PREPARATION OF OFFICIAL STATEMENT

### Sources and Compilation of Information

The financial data and other information contained in this OFFICIAL STATEMENT has been obtained primarily from the District's records, the Developers, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this OFFICIAL STATEMENT are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

### Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### Underwriter

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

### Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

Tax Assessor/Collector: The information contained in this Official Statement relating to the historical breakdown of the Certified Taxable Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by B&A Municipal Tax Services, LLC, and is included herein in reliance upon B&A Municipal Tax Services, LLC as an expert in collecting taxes.

Appraisal District: The information contained in this Official Statement relating to the Assessed Valuations of the District has been provided by the Harris County Appraisal District and the Fort Bend Central Appraisal District and has been included herein in reliance upon the authority of such entities as experts in assessing the values of property in Harris County and in Fort Bend County, respectively, including the District.

Engineer: The information contained in this Official Statement relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" (as it relates to District facilities) has been provided by Van De Wiele & Vogler Incorporated and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The financial statements of the District as of and for the fiscal year ended December 31, 2017, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX A."

### **Updating the Official Statement**

If subsequent to the date of the OFFICIAL STATEMENT, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the OFFICIAL STATEMENT to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the OFFICIAL STATEMENT satisfactory to the Underwriter; provided, however, that the obligation of the District to the Underwriter to so amend or supplement the OFFICIAL STATEMENT will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time as required by law (but not more than 90 days after the date the District delivers the Bonds).

### **Certification of Official Statement**

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the Board has relied in part upon its examination of records of the District, and upon discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"), or any successor to its functions as a repository, through the Electronic Municipal Market Access ("EMMA"), system.

### **Annual Reports**

The District will provide certain financial information and operating data, annually to the MSRB through its EMMA system. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings "FINANCIAL STATEMENT (UNAUDITED)," "WATER AND SEWER OPERATIONS," "TAX DATA," "DEBT SERVICE REQUIREMENTS" (most of which information is contained in the District's annual audited financial statements) and in APPENDIX A (Independent Auditor's Report and Financial Statements of the District). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2018.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated financial information and operating data will include audited financial statements, if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is December 31. Accordingly, it must provide updated information by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.



### **Specified Event Notices**

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information from the MSRB**

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and Beneficial Owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

### **Compliance With Prior Undertakings**

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12 with the exception of the following: When the District filed its Annual Financial Information and Operating Data for the fiscal year ending June 30, 2013, it failed to link CUSIPS for its Series 2014 Bonds. The 2013 annual filing for the missing Series 2014 Bonds was made on February 25, 2019.

## MISCELLANEOUS

All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this OFFICIAL STATEMENT involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

/s/ Jack R. Wells, Jr.  
President, Board of Directors

ATTEST:

/s/ Patrice Castillo  
Secretary, Board of Directors

**APPENDIX A**

**Independent Auditor's Report and Financial Statements of the District  
for the year ended December 31, 2017**

# **Harris-Fort Bend Counties Municipal Utility District No. 5**

Harris and Fort Bend Counties, Texas

Independent Auditor's Report and Financial Statements

December 31, 2017



# Harris-Fort Bend Counties Municipal Utility District No. 5

## December 31, 2017

### Contents

<b>Independent Auditor's Report</b> .....	<b>1</b>
<b>Management's Discussion and Analysis</b> .....	<b>3</b>
<b>Basic Financial Statements</b>	
Statement of Net Position and Governmental Funds Balance Sheet .....	9
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances.....	11
Notes to Financial Statements.....	12
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund.....	28
Budgetary Comparison Schedule – Water Plant.....	29
Budgetary Comparison Schedule – Wastewater Treatment Plant .....	30
Notes to Required Supplementary Information .....	31
<b>Other Information</b>	
Other Schedules Included Within This Report .....	32
Schedule of Services and Rates .....	33
Schedule of General Fund Expenditures.....	34
Schedule of Temporary Investments .....	35
Analysis of Taxes Levied and Receivable .....	36
Schedule of Long-term Debt Service Requirements by Years .....	38
Changes in Long-term Bonded Debt .....	46
Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund – Five Years.....	47
Board Members, Key Personnel and Consultants.....	49

## Independent Auditor's Report

Board of Directors  
Harris-Fort Bend Counties Municipal Utility District No. 5  
Harris and Fort Bend Counties, Texas

We have audited the accompanying financial statements of the governmental activities of Harris-Fort Bend Counties Municipal Utility District No. 5 (the District), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the District as of December 31, 2017, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedules listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Houston, Texas  
May 10, 2018

# **Harris-Fort Bend Counties Municipal Utility District No. 5**

## **Management's Discussion and Analysis**

### **December 31, 2017**

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

#### **Government-wide Financial Statements**

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets, liabilities, and deferred inflows and outflows of resources of the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current year.



# **Harris-Fort Bend Counties Municipal Utility District No. 5**

## **Management's Discussion and Analysis (Continued)**

### **December 31, 2017**

Although the statement of activities looks different from a commercial enterprise's statement of income, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as change in net position, essentially the same thing.

#### **Fund Financial Statements**

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

#### **Governmental Funds**

Governmental-fund financial statements consist of a balance sheet and a statement of revenues, expenditures and changes in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water, sewer and drainage systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's assets, liabilities, and deferred inflows and outflows of resources is labeled the fund balance and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements is different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in the notes to financial statements that describes the adjustments to fund balances to arrive at net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in the notes to financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position, as reported in the governmental activities column in the statement of activities.

#### **Notes to Financial Statements**

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2017**

**Financial Analysis of the District as a Whole**

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

**Summary of Net Position**

	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 9,437,296	\$ 9,955,752
Capital assets	18,009,163	18,523,505
Total assets	27,446,459	28,479,257
Deferred outflows of resources	63,988	89,503
Total assets and deferred outflows of resources	\$ 27,510,447	\$ 28,568,760
Long-term liabilities	\$ 19,641,735	\$ 21,342,240
Other liabilities	752,049	772,628
Total liabilities	20,393,784	22,114,868
Deferred inflows of resources	2,132,050	2,115,587
Net position:		
Net investment in capital assets	(879,971)	(1,950,076)
Restricted	1,747,243	1,764,207
Unrestricted	4,117,341	4,524,174
Total net position	\$ 4,984,613	\$ 4,338,305

The total net position of the District increased by \$646,308, or about 15 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2017**

**Summary of Changes in Net Position**

	<u>2017</u>	<u>2016</u>
Revenues:		
Property taxes	\$ 2,104,820	\$ 2,140,611
City of Houston tax rebates	160,099	163,457
Charges for services	2,316,109	2,183,221
Other revenues	<u>341,081</u>	<u>183,337</u>
Total revenues	<u>4,922,109</u>	<u>4,670,626</u>
Expenses:		
Services	2,713,543	2,436,230
Depreciation	677,223	675,652
Purchase of capacity	118,650	-
Debt service	<u>766,385</u>	<u>817,137</u>
Total expenses	<u>4,275,801</u>	<u>3,929,019</u>
Change in net position	646,308	741,607
Net position, beginning of year	<u>4,338,305</u>	<u>3,596,698</u>
Net position, end of year	<u>\$ 4,984,613</u>	<u>\$ 4,338,305</u>

**Financial Analysis of the District's Funds**

The District's combined fund balances as of the end of the fiscal year ended December 31, 2017, were \$6,691,114, a decrease of \$545,470 from the prior year.

The general fund's fund balance decreased by \$427,145 primarily due to service operation and capital outlay expenditures exceeding property taxes and service revenues.

The water plant fund's fund balance increased by \$14,195 due to an increase in the operating reserve that was received from the general fund. The wastewater treatment plant fund's fund balance decreased by \$5,461 due to a decrease in the operating reserve.

The debt service fund's fund balance decreased by \$44,212 because debt service principal and interest requirements were greater than tax revenues generated.

The capital projects fund's fund balance decreased by \$82,847 primarily due to an interfund transfer to the general fund.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2017**

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to regional water fee revenue and related expenditures, purchased services, professional fees, repairs and maintenance and capital outlay expenditures being greater than anticipated and water service revenue being less than anticipated. In addition, interfund transfers were not included in the current year budget. The fund balance as of December 31, 2017, was expected to be \$4,631,875 and the actual end-of-year fund balance was \$4,092,437.

**Capital Assets and Related Debt**

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized below:

**Capital Assets (Net of Accumulated Depreciation)**

	<b>2017</b>	<b>2016</b>
Land and improvements	\$ 2,284,978	\$ 2,284,978
Construction in progress	163,324	31,853
Water facilities	4,619,063	4,808,348
Wastewater facilities	6,654,970	6,957,242
Drainage facilities	4,286,828	4,441,084
Total capital assets	\$ 18,009,163	\$ 18,523,505

During the current year, additions to capital assets were as follows:

Construction in progress related to the channel rehabilitation for the District	\$ 135,577
Water plant No. 1 and No. 2 tank recoating	27,304
Total additions to capital assets	\$ 162,881

Debt

The changes in the debt position of the District during the fiscal year ended December 31, 2017, are summarized as follows:

Long-term debt payable, beginning of year	\$ 21,342,240
Decreases in long-term debt	(1,700,505)
Long-term debt payable, end of year	\$ 19,641,735

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Management's Discussion and Analysis (Continued)**  
**December 31, 2017**

At December 31, 2017, the District had \$9,985,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's bonds carry an underlying rating of "A-." The District's Series 2006 refunding, 2011, 2011A refunding, 2013 and 2014 bonds carry a rating of "AA" from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2008 bonds carry a rating of "AA" from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Corp. The Series 2015 bonds carry a rating of "AA" from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company.

**Other Relevant Factors**

**Relationship to the City of Houston**

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent, except as set forth below.

Effective December 5, 2017, the District entered into a Second Amended and Restated Strategic Partnership Agreement (the Agreement) with the City, which annexed certain property within the boundaries of the District into the City for "limited purposes," as described therein. Under the terms of the Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years, at which time the City has the option to annex the District if it chooses to do so.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**December 31, 2017**

	General Fund	Water Plant	Wastewater Treatment Plant	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>								
Cash	\$ 171,841	\$ 215,492	\$ 85,900	\$ 1,347,544	\$ 32,472	\$ 1,853,249	\$ -	\$ 1,853,249
Certificates of deposit	3,360,000	-	-	720,000	-	4,080,000	-	4,080,000
Short-term investments	729,701	-	-	926,885	671,785	2,328,371	-	2,328,371
Receivables:								
Property taxes	204,260	-	-	673,617	-	877,877	-	877,877
Service accounts	177,487	-	-	-	-	177,487	-	177,487
Sales tax rebates	17,942	-	-	-	-	17,942	21,984	39,926
Accrued penalty and interest	-	-	-	-	-	-	3,006	3,006
Accrued interest	11,944	-	-	3,097	-	15,041	-	15,041
Interfund receivable	306,206	-	-	-	-	306,206	(306,206)	-
Due from participants	-	98,143	41,090	-	-	139,233	(77,930)	61,303
Due from others	1,036	-	-	-	-	1,036	-	1,036
Capital assets (net of accumulated depreciation):								
Land and improvements	-	-	-	-	-	-	2,284,978	2,284,978
Construction in progress	-	-	-	-	-	-	163,324	163,324
Infrastructure	-	-	-	-	-	-	15,560,861	15,560,861
<b>Total assets</b>	<b>4,980,417</b>	<b>313,635</b>	<b>126,990</b>	<b>3,671,143</b>	<b>704,257</b>	<b>9,796,442</b>	<b>17,650,017</b>	<b>27,446,459</b>
<b>Deferred Outflows of Resources</b>								
Deferred amount on debt refundings	0	0	0	0	0	0	63,988	63,988
<b>Total assets and deferred outflows of resources</b>	<b>\$ 4,980,417</b>	<b>\$ 313,635</b>	<b>\$ 126,990</b>	<b>\$ 3,671,143</b>	<b>\$ 704,257</b>	<b>\$ 9,796,442</b>	<b>\$ 17,714,005</b>	<b>\$ 27,510,447</b>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**December 31, 2017**

	General Fund	Water Plant	Wastewater Treatment Plant	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>								
Accounts payable	\$ 163,656	\$ 94,412	\$ 24,053	\$ 1,376	\$ -	\$ 283,497	\$ (77,930)	\$ 205,567
Accrued interest payable	-	-	-	-	-	-	176,702	176,702
Retainage payable	6,291	-	-	-	-	6,291	-	6,291
Customer deposits	217,349	-	-	-	-	217,349	-	217,349
Due to participants	-	98,788	46,377	-	-	145,165	-	145,165
Interfund payable	-	-	-	306,206	-	306,206	(306,206)	-
Due to others	975	-	-	-	-	975	-	975
Long-term liabilities:								
Due within one year	-	-	-	-	-	-	970,000	970,000
Due after one year	-	-	-	-	-	-	18,671,735	18,671,735
<b>Total liabilities</b>	<b>388,271</b>	<b>193,200</b>	<b>70,430</b>	<b>307,582</b>	<b>0</b>	<b>959,483</b>	<b>19,434,301</b>	<b>20,393,784</b>
<b>Deferred Inflows of Resources</b>								
Deferred property tax revenues	499,709	0	0	1,646,136	0	2,145,845	(13,795)	2,132,050
<b>Fund Balances/Net Position</b>								
Fund balances:								
Restricted:								
Water, sewer and drainage	-	-	-	-	704,257	704,257	(704,257)	-
Unlimited tax bonds	-	-	-	1,717,425	-	1,717,425	(1,717,425)	-
Committed:								
Water production and distribution	-	120,435	-	-	-	120,435	(120,435)	-
Wastewater collection and treatment	-	-	56,560	-	-	56,560	(56,560)	-
Unassigned	4,092,437	-	-	-	-	4,092,437	(4,092,437)	-
<b>Total fund balances</b>	<b>4,092,437</b>	<b>120,435</b>	<b>56,560</b>	<b>1,717,425</b>	<b>704,257</b>	<b>6,691,114</b>	<b>(6,691,114)</b>	<b>0</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 4,980,417</b>	<b>\$ 313,635</b>	<b>\$ 126,990</b>	<b>\$ 3,671,143</b>	<b>\$ 704,257</b>	<b>\$ 9,796,442</b>		
<b>Net position:</b>								
Net investment in capital assets							(879,971)	(879,971)
Restricted for plant operations							176,995	176,995
Restricted for debt service							1,554,604	1,554,604
Restricted for capital projects							15,644	15,644
Unrestricted							4,117,341	4,117,341
<b>Total net position</b>							<b>\$ 4,984,613</b>	<b>\$ 4,984,613</b>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended December 31, 2017**

	General Fund	Water Plant	Wastewater Treatment Plant	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>								
Property taxes	\$ 467,281	\$ -	\$ -	\$ 1,635,320	\$ -	\$ 2,102,601	\$ 2,219	\$ 2,104,820
City of Houston tax rebates	161,011	-	-	-	-	161,011	(912)	160,099
Water service	526,072	-	-	-	-	526,072	-	526,072
Sewer service	519,636	-	-	-	-	519,636	-	519,636
Regional water fee	496,757	-	-	-	-	496,757	-	496,757
Participant charges	-	1,315,456	474,570	-	-	1,790,026	(1,016,382)	773,644
Penalty and interest	31,990	-	-	17,392	-	49,382	565	49,947
Tap connection and inspection fees	20,235	-	-	-	-	20,235	-	20,235
Investment income	35,341	337	147	20,613	7,791	64,229	-	64,229
Other income	43,851	-	4,105	15	-	47,971	158,699	206,670
<b>Total revenues</b>	<b>2,302,174</b>	<b>1,315,793</b>	<b>478,822</b>	<b>1,673,340</b>	<b>7,791</b>	<b>5,777,920</b>	<b>(855,811)</b>	<b>4,922,109</b>
<b>Expenditures/Expenses</b>								
Service operations:								
Purchased services	508,545	-	-	-	-	508,545	(494,700)	13,845
Regional water fee	514,628	989,670	-	-	-	1,504,298	(514,628)	989,670
Professional fees	200,451	2,806	24,080	3,747	-	231,084	(9,211)	221,873
Contracted services	360,226	19,325	29,750	37,658	-	446,959	346	447,305
Utilities	4,107	100,213	87,954	-	-	192,274	-	192,274
Repairs and maintenance	253,639	146,966	290,010	-	-	690,615	12,706	703,321
Other expenditures	102,094	12,155	23,926	6,985	95	145,255	-	145,255
Capital outlay	859,822	44,658	23,102	-	6,541	934,123	(934,123)	-
Depreciation	-	-	-	-	-	-	677,223	677,223
Purchase of capacity	-	-	-	-	-	-	118,650	118,650
Debt service:								
Principal retirement	-	-	-	940,000	-	940,000	(940,000)	-
Interest and fees	-	-	-	729,162	-	729,162	36,148	765,310
Debt issuance costs	-	-	-	-	1,075	1,075	-	1,075
<b>Total expenditures/expenses</b>	<b>2,803,512</b>	<b>1,315,793</b>	<b>478,822</b>	<b>1,717,552</b>	<b>7,711</b>	<b>6,323,390</b>	<b>(2,047,589)</b>	<b>4,275,801</b>
<b>Excess (Deficiency) of Revenues</b>								
<b>Over Expenditures</b>	(501,338)	-	-	(44,212)	80	(545,470)	1,191,778	
<b>Other Financing Sources (Uses)</b>								
Interfund transfers in (out)	74,193	14,195	(5,461)	-	(82,927)	-	-	
<b>Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out</b>								
	(427,145)	14,195	(5,461)	(44,212)	(82,847)	(545,470)	545,470	
<b>Change in Net Position</b>								
							646,308	646,308
<b>Fund Balances/Net Position</b>								
Beginning of year	4,519,582	106,240	62,021	1,761,637	787,104	7,236,584	-	4,338,305
End of year	\$ 4,092,437	\$ 120,435	\$ 56,560	\$ 1,717,425	\$ 704,257	\$ 6,691,114	\$ 0	\$ 4,984,613



# Harris-Fort Bend Counties Municipal Utility District No. 5

## Notes to Financial Statements

### December 31, 2017

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

Harris-Fort Bend Counties Municipal Utility District No. 5 (the District) was created by an order of the Texas Natural Resource Conservation Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective February 17, 1995, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

#### ***Reporting Entity***

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

The District is a participant with Harris-Fort Bend Counties Municipal Utility District No. 1 (HFB No. 1) in joint facilities, which were constructed to maintain and operate water supply and wastewater treatment facilities on behalf of all participants, as further described in Note 8. The Board of the District has the responsibility of approving budgets, setting rates and determining day-to-day operations. Financial information for the joint facilities is included in the special revenue fund. Additional financial information for the joint facilities may be obtained from Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056.

#### ***Government-wide and Fund Financial Statements***

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the

# Harris-Fort Bend Counties Municipal Utility District No. 5

## Notes to Financial Statements

### December 31, 2017

government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

*General Fund* – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

The District has two special revenue funds as follows:

*Water Plant Fund* – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is water service revenues.

*Wastewater Treatment Plant Fund* – Accounts for revenues and expenditures involving specific revenue sources that are legally restricted to expenditures for specified purposes. The primary source of revenue is sewer service revenues.

*Debt Service Fund* – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

*Capital Projects Fund* – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

#### **Fund Balances – Governmental Funds**

The fund balances for the District's governmental funds can be displayed in up to five components:

*Nonspendable* – Amounts that are not in a spendable form or are required to be maintained intact.

# Harris-Fort Bend Counties Municipal Utility District No. 5

## Notes to Financial Statements

### December 31, 2017

*Restricted* – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed* – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

*Assigned* – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

*Unassigned* – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

### ***Measurement Focus and Basis of Accounting***

#### **Government-wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

# Harris-Fort Bend Counties Municipal Utility District No. 5

## Notes to Financial Statements

### December 31, 2017

#### **Fund Financial Statements**

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

#### ***Deferred Outflows and Inflows of Resources***

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

#### ***Interfund Transactions***

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

#### ***Pension Costs***

The District does not participate in a pension plan and, therefore, has no pension costs.

#### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

# Harris-Fort Bend Counties Municipal Utility District No. 5

## Notes to Financial Statements

### December 31, 2017

#### ***Investments and Investment Income***

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

#### ***Property Taxes***

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Any collections on the current year tax levy are deferred and recognized in the subsequent fiscal year. Current year revenues recognized are those taxes collected during the fiscal year for prior years' tax levies, plus any collections received during fiscal 2016 on the 2016 levy.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended December 31, 2017, the tax levied in October 2017 is recorded as receivable and deferred inflows of resources and will be considered earned during the fiscal year ended December 31, 2018. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

#### ***Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

	<b>Years</b>
Water production and distribution facilities	10-45
Wastewater collection and treatment facilities	10-45
Drainage facilities	10-45

***Deferred Amount on Debt Refundings***

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

***Debt Issuance Costs***

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

***Long-term Obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Net Position/Fund Balances***

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, generally, it is the District's policy to use restricted resources first.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

***Reconciliation of Government-wide and Fund Financial Statements***

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 18,009,163
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	13,795
Penalty and interest on delinquent taxes is not receivable in the current year and is not reported in the funds.	3,006
Tax rebates are not available in the current year and are not reported in the funds.	21,984
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	63,988
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(176,702)
Long-term debt obligations are not due and payable in the current year and are not reported in the funds.	<u>(19,641,735)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (1,706,501)</u></u>

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

Change in fund balances.	\$ (545,470)
Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation, noncapitalized costs and purchase of capacity in the current year.	127,355

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	\$ 940,000
Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities.	160,571
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(36,148)
Change in net position of governmental activities.	\$ 646,308

**Note 2: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At December 31, 2017, none of the District's bank balances were exposed to custodial credit risk.

***Investments***

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States,



**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations.

At December 31, 2017, the District had the following investments and maturities:

Type	Maturities in Years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Texas CLASS	\$ 2,328,371	\$ 2,328,371	\$ 0	\$ 0	\$ 0

**Interest Rate Risk.** As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2017, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

**Summary of Carrying Values**

The carrying values of deposits and investments shown previously are included in the balance sheet at December 31, 2017, as follows:

Carrying value:	
Deposits	\$ 5,933,249
Investments	2,328,371
Total	\$ 8,261,620

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

Included in the following statement of net position captions:

Cash	\$	1,853,249
Certificates of deposit		4,080,000
Short-term investments		2,328,371
Total	\$	8,261,620

**Investment Income**

Investment income of \$64,229 for the year ended December 31, 2017, consisted of interest income.

**Fair Value Measurements**

The District has the following recurring fair value measurements as of December 31, 2017:

- Pooled investments of \$2,328,371 are valued at fair value per share of the pool's underlying portfolio.

**Note 3: Capital Assets**

A summary of changes in capital assets for the year ended December 31, 2017, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Reclassifi- cations/ Retirements	Balances, End of Year
Capital assets, non-depreciable:				
Land and improvements	\$ 2,284,978	\$ -	\$ -	\$ 2,284,978
Construction in progress	31,853	135,577	(4,106)	163,324
Total capital assets, non-depreciable	2,316,831	135,577	(4,106)	2,448,302
Capital assets, depreciable:				
Water production and distribution facilities	7,600,975	27,304	4,106	7,632,385
Wastewater collection and treatment facilities	10,327,053	-	-	10,327,053
Drainage facilities	6,480,320	-	-	6,480,320
Total capital assets, depreciable	24,408,348	27,304	4,106	24,439,758

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

<b>Governmental Activities (Continued)</b>	<b>Balances, Beginning of Year</b>	<b>Additions</b>	<b>Reclassifi- cations/ Retirements</b>	<b>Balances, End of Year</b>
Less accumulated depreciation:				
Water production and distribution facilities	\$ (2,792,627)	\$ (220,695)	\$ -	\$ (3,013,322)
Wastewater collection and treatment facilities	(3,369,811)	(302,272)	-	(3,672,083)
Drainage facilities	(2,039,236)	(154,256)	-	(2,193,492)
Total accumulated depreciation	<u>(8,201,674)</u>	<u>(677,223)</u>	<u>0</u>	<u>(8,878,897)</u>
Total governmental activities, net	<u>\$ 18,523,505</u>	<u>\$ (514,342)</u>	<u>\$ 0</u>	<u>\$ 18,009,163</u>

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended December 31, 2017, were as follows:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:				
General obligation bonds	\$ 20,945,000	\$ 940,000	\$ 20,005,000	\$ 970,000
Less discounts on bonds	<u>382,460</u>	<u>19,195</u>	<u>363,265</u>	<u>-</u>
	20,562,540	920,805	19,641,735	970,000
Due to developers	<u>779,700</u>	<u>779,700</u>	<u>-</u>	<u>-</u>
Total governmental activities long-term liabilities	<u>\$ 21,342,240</u>	<u>\$ 1,700,505</u>	<u>\$ 19,641,735</u>	<u>\$ 970,000</u>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

**General Obligation Bonds**

	<b>Refunding Series 2006</b>	<b>Series 2008</b>
Amounts outstanding, December 31, 2017	\$1,045,000	\$2,600,000
Interest rates	4.00%	4.75% to 6.75%
Maturity dates, serially beginning/ending	April 1, 2018/2019	April 1, 2018/2029
Interest payment dates	April 1/October 1	April 1/October 1
Callable dates*	April 1, 2015	April 1, 2018
	<b>Series 2011</b>	<b>Refunding Series 2011A</b>
Amounts outstanding, December 31, 2017	\$3,880,000	\$2,235,000
Interest rates	4.00% to 4.25%	2.00% to 4.00%
Maturity dates, serially beginning/ending	April 1, 2022/2030	April 1, 2018/2021
Interest payment dates	April 1/October 1	April 1/October 1
Callable dates*	April 1, 2019	April 1, 2019
	<b>Series 2013</b>	<b>Series 2014</b>
Amounts outstanding, December 31, 2017	\$4,375,000	\$3,855,000
Interest rates	2.75% to 3.00%	2.00% to 3.50%
Maturity dates, serially beginning/ending	April 1, 2022/2031	April 1, 2018/2034
Interest payment dates	April 1/October 1	April 1/October 1
Callable dates*	April 1, 2021	April 1, 2022

\*Or any date thereafter, callable at par plus accrued interest to the date of redemption.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

	<b>Series 2015</b>
Amount outstanding, December 31, 2017	\$2,015,000
Interest rates	3.00%
Maturity dates, serially beginning/ending	April 1, 2022/2035
Interest payment dates	April 1/October 1
Callable date*	April 1, 2024

\*Or any date thereafter, callable at par plus accrued interest to the date of redemption.

***Annual Debt Service Requirements***

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at December 31, 2017.

<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2018	\$ 970,000	\$ 689,131	\$ 1,659,131
2019	1,000,000	653,569	1,653,569
2020	1,040,000	621,305	1,661,305
2021	1,070,000	586,156	1,656,156
2022	1,120,000	546,077	1,666,077
2023-2027	6,275,000	2,076,900	8,351,900
2028-2032	6,605,000	834,630	7,439,630
2033-2035	1,925,000	75,338	2,000,338
Total	\$ 20,005,000	\$ 6,083,106	\$ 26,088,106

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Bonds voted	\$ 39,600,000
Bonds sold	29,615,000
Refunding bonds voted	27,000,000
Refunding bond authorization used	536,653

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 5: Significant Bond Order and Commission Requirements**

- A. The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended December 31, 2017, the District levied an ad valorem debt service tax at the rate of \$0.3950 per \$100 of assessed valuation, which resulted in a tax levy of \$1,635,262 on the taxable valuation of \$413,990,275 for the 2017 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$1,659,131.
- B. During the current year, the District transferred \$82,927 from the capital projects fund to the general fund. The transfer was in accordance with the rules of the Commission.

**Note 6: Maintenance Taxes**

At an election held May 6, 1995, voters authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property within the District subject to taxation. During the year ended December 31, 2017, the District levied an ad valorem maintenance tax at the rate of \$0.1200 per \$100 of assessed valuation, which resulted in a tax levy of \$496,788 on the taxable valuation of \$413,990,275 for the 2017 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

**Note 7: Regional Water Authority**

The District is within the boundaries of the North Fort Bend Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Fort Bend Subsidence District, which regulates groundwater withdrawal. As of December 31, 2017, the Authority was billing the District \$3.05 per 1,000 gallons of water pumped from its wells. Effective January 1, 2018, the Authority will increase said rate to \$3.35 per 1,000 gallons of water pumped from the wells. This amount is subject to future increases.

**Note 8: Contracts With Other Districts**

***Permanent Water Supply***

On April 21, 1994, the District entered into a 40-year agreement with HFB No. 1 for the joint construction of permanent water supply facilities. The contract was subsequently amended April 11, 2000, January 16, 2001, June 10, 2003, March 14, 2006, and December 16, 2009. The water plant

# Harris-Fort Bend Counties Municipal Utility District No. 5

## Notes to Financial Statements

### December 31, 2017

incurred \$1,315,456 of operational costs in the current year of which \$590,369 was billed to HFB No. 1. Operating costs are shared based on ownership of the facility, which is currently 38.86 percent by HFB No. 1 and 61.14 percent by the District. An operating reserve of \$219,223 has been established with the District contributing \$120,435 and HFB No. 1 contributing \$98,788.

#### ***Permanent Wastewater Treatment***

On April 21, 1994, the District entered into a 40-year agreement with HFB No. 1 for the joint construction of a permanent wastewater treatment plant. The agreement was subsequently amended on April 11, 2000, December 18, 2002, March 11, 2003, November 19, 2003, July 12, 2005, December 16, 2009, January 1, 2013, and September 16, 2014. Construction of the initial phase of 350,000 gallons per day was completed in November 2000, construction of Phase Two expansion of an additional 350,000 gallons-per-day capacity was completed in July 2005 and completion of Phase Three expansion of an additional 250,000 gallons per-day capacity was completed in August 2008. Operating costs associated with the plant are shared based either on each district's capacity in the plant, which is currently 39.37 percent for HFB No. 1 and 60.63 percent for the District, or on the ratio of each district's flow of waste transported to the plant to total waste transported by both parties with each party's ratio determined based upon the number of active connections of each party to the total number of active connections that transport waste to the plant. The wastewater treatment plant incurred \$474,570 of operating costs in the current year of which \$211,025 was billed to HFB No. 1. An operating reserve of \$102,937 has been established with the District contributing \$56,560 and HFB No. 1 contributing \$46,377.

#### **Note 9: Drainage Channel**

On June 15, 2002, the District entered into a 50-year agreement for joint financing and maintenance of drainage facilities with Cimarron Municipal Utility District (Cimarron). Pursuant to the joint agreement, Cimarron paid a pro rata share of the construction and financing costs for the outfall drainage channel and pays a pro rata share of the ongoing operation and maintenance costs for the drainage channel. Cimarron's pro rata share of the drainage channel costs and allocated capacity is 12.66 percent. The District is the title owner of the drainage channel.

#### **Note 10: Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Financial Statements**  
**December 31, 2017**

**Note 11: Strategic Partnership Agreement**

Effective December 5, 2017, the District and the City of Houston (the City) entered into a Second Amended and Restated Strategic Partnership Agreement (the Agreement) under which the City annexed certain property (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all City sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full-purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years. During the current year, the District recorded \$160,099 in revenues related to the Agreement.

**Note 12: Hurricane Harvey**

The Houston area sustained widespread flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District sustained material damage at its water plant No. 2 facility and estimates damages incurred to be approximately \$130,000. The District has filed an insurance claim with their insurance provider and a claim with the Federal Emergency Management Agency (FEMA). The District is aware of structural flooding in approximately 30 homes. Hurricane Harvey and flooding could have an adverse impact on the region's economy, including business activity and development in the region. The District cannot predict what impact, if any Hurricane Harvey and flooding will have on the assessed value of homes within the District.



## **Required Supplementary Information**

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended December 31, 2017**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 467,666	\$ 467,281	\$ (385)
City of Houston tax rebates	145,000	161,011	16,011
Water service	565,000	526,072	(38,928)
Sewer service	535,000	519,636	(15,364)
Regional water fee	475,000	496,757	21,757
Penalty and interest	40,000	31,990	(8,010)
Tap connection and inspection fees	10,500	20,235	9,735
Investment income	22,180	35,341	13,161
Other income	23,700	43,851	20,151
Total revenues	2,284,046	2,302,174	18,128
<b>Expenditures</b>			
Service operations:			
Purchased services	455,903	508,545	(52,642)
Regional water fee	484,950	514,628	(29,678)
Professional fees	150,000	200,451	(50,451)
Contracted services	368,800	360,226	8,574
Utilities	3,300	4,107	(807)
Repairs and maintenance	193,450	253,639	(60,189)
Other expenditures	112,350	102,094	10,256
Capital outlay	403,000	859,822	(456,822)
Total expenditures	2,171,753	2,803,512	(631,759)
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	112,293	(501,338)	(613,631)
<b>Other Financing Sources</b>			
Interfund transfers in	-	74,193	74,193
<b>Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out</b>	112,293	(427,145)	(539,438)
<b>Fund Balance, Beginning of Year</b>	4,519,582	4,519,582	-
<b>Fund Balance, End of Year</b>	\$ 4,631,875	\$ 4,092,437	\$ (539,438)

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Budgetary Comparison Schedule – Water Plant**  
**Year Ended December 31, 2017**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Service fees:			
The District	\$ 722,609	\$ 725,087	\$ 2,478
Harris-Fort Bend Counties Municipal Utility District No. 1	592,726	590,369	(2,357)
Investment income	150	337	187
Total revenues	<u>1,315,485</u>	<u>1,315,793</u>	<u>308</u>
<b>Expenditures</b>			
Service operations:			
Regional water fee	915,000	989,670	(74,670)
Audit fees	2,200	2,000	200
Legal fees	4,000	806	3,194
Engineering fees	33,000	-	33,000
Bookkeeping fees	6,500	6,125	375
Operator fees	13,200	13,200	-
Utilities	115,000	100,213	14,787
Repairs and maintenance	162,500	146,966	15,534
Insurance	10,000	9,936	64
Miscellaneous	14,085	2,219	11,866
Capital outlay	40,000	44,658	(4,658)
Total expenditures	<u>1,315,485</u>	<u>1,315,793</u>	<u>(308)</u>
<b>Excess of Revenues Over Expenditures</b>	-	-	-
<b>Other Financing Sources</b>			
Interfund transfers in	-	14,195	14,195
<b>Excess of Revenues and Transfers In Over Expenditures and Transfers Out</b>	-	14,195	14,195
<b>Fund Balance, Beginning of Year</b>	<u>106,240</u>	<u>106,240</u>	-
<b>Fund Balance, End of Year</b>	<u>\$ 106,240</u>	<u>\$ 120,435</u>	<u>\$ 14,195</u>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Budgetary Comparison Schedule – Wastewater Treatment Plant**  
**Year Ended December 31, 2017**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Service fees:			
The District	\$ 226,244	\$ 263,545	\$ 37,301
Harris-Fort Bend Counties Municipal Utility District No. 1	185,508	211,025	25,517
Investment income	115	147	32
Other income	-	4,105	4,105
	<u>411,867</u>	<u>478,822</u>	<u>66,955</u>
<b>Expenditures</b>			
Service operations:			
Audit fees	2,200	2,000	200
Legal fees	10,000	5,305	4,695
Engineering fees	40,000	16,775	23,225
Bookkeeping fees	6,600	6,050	550
Operator fees	23,700	23,700	-
Utilities	78,000	87,954	(9,954)
Repairs and maintenance	224,500	290,010	(65,510)
Administrative	5,257	1,530	3,727
Postage	110	87	23
Insurance	11,000	10,875	125
Permit fees	5,000	5,117	(117)
Garbage	5,500	6,317	(817)
Capital outlay	-	23,102	(23,102)
	<u>411,867</u>	<u>478,822</u>	<u>(66,955)</u>
<b>Excess of Revenues Over Expenditures</b>	-	-	-
<b>Other Financing Uses</b>			
Interfund transfers out	-	(5,461)	(5,461)
	<u>-</u>	<u>(5,461)</u>	<u>(5,461)</u>
<b>Deficiency of Revenues and Transfers In Over Expenditures and Transfers Out</b>	-	(5,461)	(5,461)
<b>Fund Balance, Beginning of Year</b>	62,021	62,021	-
	<u>62,021</u>	<u>62,021</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	\$ 62,021	\$ 56,560	\$ (5,461)
	<u>\$ 62,021</u>	<u>\$ 56,560</u>	<u>\$ (5,461)</u>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Notes to Required Supplementary Information**  
**December 31, 2017**

***Budgets and Budgetary Accounting***

An annual operating budget is prepared for the general, water plant and wastewater treatment plant funds by the District's consultants. The budgets reflect resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budgets prior to the start of its fiscal year. The budgets are not a spending limitation (a legally restricted appropriation). The original budgets of the general fund, water and wastewater treatment plants were not amended during 2017.

The District prepares its annual operating budgets on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedules – General Fund, Water Plant and Wastewater Treatment Plant funds present the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

## **Other Information**

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Other Schedules Included Within This Report**  
**December 31, 2017**

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 12-27
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –  
Five Years
- [X] Board Members, Key Personnel and Consultants

# Harris-Fort Bend Counties Municipal Utility District No. 5

## Schedule of Services and Rates

### Year Ended December 31, 2017

1. Services provided by the District:

<input checked="" type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input checked="" type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Security
<input checked="" type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other _____		

2. Retail service providers

a. Retail rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate Per 1,000 Gallons Over Minimum	Usage Levels
Water:	\$ 20.00	5,000	N	\$ 2.00 \$ 2.50	5,001 to 10,000 10,001 to No Limit
Wastewater:	\$ 31.22	0	Y		
Regional water fee:	\$ 2.95	0	N	\$ 2.95	1 to No Limit
Does the District employ winter averaging for wastewater usage?					Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Total charges per 10,000 gallons usage (including fees):			Water	\$ 59.50	Wastewater \$ 31.22

b. Water and wastewater retail connections:

<b>Meter Size</b>	<b>Total Connections</b>	<b>Active Connections</b>	<b>ESFC Factor</b>	<b>Active ESFC*</b>
Unmetered	-	-	x1.0	-
≤ 3/4"	1,369	1,356	x1.0	1,356
1"	8	8	x2.5	20
1 1/2"	5	5	x5.0	25
2"	16	16	x8.0	128
3"	1	1	x15.0	15
4"	-	-	x25.0	-
6"	3	3	x50.0	150
8"	1	1	x80.0	80
10"	-	-	x115.0	-
Total water	1,403	1,390		1,774
Total wastewater	1,361	1,348	x1.0	1,348

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system:	336,982 **
Gallons billed to customers:	317,514
Water accountability ratio (gallons billed/gallons pumped):	94.22%

\*"ESFC" means equivalent single-family connections

\*\*Includes water furnished to other district.



**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of General Fund Expenditures**  
**Year Ended December 31, 2017**

<b>Personnel (including benefits)</b>		\$	-
<b>Professional Fees</b>			
Auditing	\$	22,500	
Legal		87,777	
Engineering		90,174	
Financial advisor		-	200,451
		<hr/>	
<b>Purchased Services for Resale</b>			508,545
Bulk water and wastewater service purchases			508,545
<b>Regional Water Fee</b>			514,628
<b>Contracted Services</b>			
Bookkeeping		26,244	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		-	
Other contracted services		80,744	106,988
		<hr/>	
<b>Utilities</b>			4,107
<b>Repairs and Maintenance</b>			253,639
<b>Administrative Expenditures</b>			
Directors' fees		15,300	
Office supplies		11,804	
Insurance		4,644	
Other administrative expenditures		70,346	102,094
		<hr/>	
<b>Capital Outlay</b>			
Capitalized assets		724,245	
Expenditures not capitalized		135,577	859,822
		<hr/>	
<b>Tap Connection Expenditures</b>			-
<b>Solid Waste Disposal</b>			253,238
<b>Fire Fighting</b>			-
<b>Parks and Recreation</b>			-
<b>Other Expenditures</b>			-
			<hr/>
Total expenditures		<hr/>	<u>\$ 2,803,512</u>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of Temporary Investments**  
**December 31, 2017**

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
<b>General Fund</b>				
Certificates of Deposit				
No. 1003058541	1.05%	12/14/18	\$ 245,000	\$ 120
No. 66000514	1.15%	08/15/18	245,000	1,073
No. 6742291551	1.30%	11/16/18	245,000	393
No. 100142249	1.10%	09/20/18	240,000	738
No. 11753	0.65%	02/27/18	200,000	1,100
No. 9009010090	0.50%	02/09/18	245,000	1,087
No. 62119	1.00%	06/08/18	245,000	1,383
No. 4188550	0.40%	04/09/18	240,000	700
No. 460018976	1.10%	09/22/18	240,000	723
No. 14559	1.10%	11/03/18	245,000	428
No. 3216000207	1.25%	07/12/18	240,000	1,414
No. 7955	0.50%	01/12/18	245,000	1,181
No. 5767	1.05%	10/05/18	240,000	601
No. 2003573	0.50%	03/07/18	245,000	1,003
Texas CLASS	1.15%	Demand	729,701	-
			<u>4,089,701</u>	<u>11,944</u>
<b>Debt Service Fund</b>				
Certificates of Deposit				
No. 66000594	1.35%	09/25/18	240,000	905
No. 5000301374	0.70%	03/21/18	240,000	1,312
No. 3216000232	1.25%	09/15/18	240,000	880
Texas CLASS	1.15%	Demand	926,885	-
			<u>1,646,885</u>	<u>3,097</u>
<b>Capital Projects Fund</b>				
Texas CLASS	1.15%	Demand	369,133	-
Texas CLASS	1.15%	Demand	208,469	-
Texas CLASS	1.15%	Demand	94,183	-
			<u>671,785</u>	<u>0</u>
Totals			<u>\$ 6,408,371</u>	<u>\$ 15,041</u>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended December 31, 2017**

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
	<u>                    </u>	<u>                    </u>
<b>Receivable, Beginning of Year</b>	\$ 188,372	\$ 660,113
Additions and corrections to prior years' taxes	<u>(2,321)</u>	<u>(8,446)</u>
Adjusted receivable, beginning of year	<u>186,051</u>	<u>651,667</u>
<b>2017 Original Tax Levy</b>	496,964	1,635,840
Additions and corrections	<u>(176)</u>	<u>(578)</u>
Adjusted tax levy	<u>496,788</u>	<u>1,635,262</u>
Total to be accounted for	682,839	2,286,929
Tax collections:   Current year	(295,449)	(972,520)
Prior years	<u>(183,130)</u>	<u>(640,792)</u>
Receivable, end of year	<u>\$ 204,260</u>	<u>\$ 673,617</u>
<b>Receivable, by Years</b>		
2017	\$ 201,339	\$ 662,742
2016	1,668	5,838
2015	812	3,182
2014	298	993
2013	42	251
2012	99	605
2011	1	3
2010	<u>1</u>	<u>3</u>
Receivable, end of year	<u>\$ 204,260</u>	<u>\$ 673,617</u>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended December 31, 2017**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Property Valuations</b>				
Land	\$ 92,661,958	\$ 89,373,379	\$ 85,799,148	\$ 70,538,142
Improvements	347,162,221	327,472,262	286,508,852	230,933,541
Personal property	18,830,872	19,274,964	12,228,712	7,521,761
Exemptions	<u>(44,664,776)</u>	<u>(44,345,185)</u>	<u>(20,157,133)</u>	<u>(14,345,943)</u>
 Total property valuations	 <u>\$ 413,990,275</u>	 <u>\$ 391,775,420</u>	 <u>\$ 364,379,579</u>	 <u>\$ 294,647,501</u>
 <b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.3950	\$ 0.4200	\$ 0.4700	\$ 0.5000
Maintenance tax rates*	<u>0.1200</u>	<u>0.1200</u>	<u>0.1200</u>	<u>0.1500</u>
 Total tax rates per \$100 valuation	 <u>\$ 0.5150</u>	 <u>\$ 0.5400</u>	 <u>\$ 0.5900</u>	 <u>\$ 0.6500</u>
 <b>Tax Levy</b>	 <u>\$ 2,132,050</u>	 <u>\$ 2,115,587</u>	 <u>\$ 2,149,840</u>	 <u>\$ 1,915,209</u>
 <b>Percent of Taxes Collected to</b>				
<b>Taxes Levied**</b>	<u>59%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$1.00 on May 6, 1995

\*\*Calculated as taxes collected for a tax year divided by taxes levied for that tax year.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of Long-term Debt Service Requirements by Years**  
**December 31, 2017**

<b>Due During Fiscal Years Ending December 31,</b>	<b>Refunding Series 2006</b>		
	<b>Principal Due April 1</b>	<b>Interest Due April 1, October 1,</b>	<b>Total</b>
2018	\$ 510,000	\$ 31,600	\$ 541,600
2019	535,000	10,700	545,700
Totals	\$ 1,045,000	\$ 42,300	\$ 1,087,300

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2017**

Due During Fiscal Years Ending December 31,	Series 2008		
	Principal Due April 1	Interest Due April 1, October 1,	Total
2018	\$ 100,000	\$ 124,875	\$ 224,875
2019	100,000	119,125	219,125
2020	100,000	114,375	214,375
2021	100,000	109,625	209,625
2022	100,000	104,813	204,813
2023	255,000	96,160	351,160
2024	270,000	83,362	353,362
2025	280,000	69,957	349,957
2026	300,000	55,819	355,819
2027	315,000	40,828	355,828
2028	330,000	25,106	355,106
2029	350,000	8,531	358,531
Totals	<u>\$ 2,600,000</u>	<u>\$ 952,576</u>	<u>\$ 3,552,576</u>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2017**

Due During Fiscal Years Ending December 31,	Series 2011		
	Principal Due April 1	Interest Due April 1, October 1,	Total
2018	\$ -	\$ 159,756	\$ 159,756
2019	-	159,756	159,756
2020	-	159,756	159,756
2021	-	159,756	159,756
2022	475,000	150,257	625,257
2023	360,000	133,557	493,557
2024	380,000	118,757	498,757
2025	405,000	103,056	508,056
2026	425,000	86,191	511,191
2027	450,000	68,144	518,144
2028	480,000	48,663	528,663
2029	505,000	27,731	532,731
2030	400,000	8,500	408,500
Totals	\$ 3,880,000	\$ 1,383,880	\$ 5,263,880

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2017**

<b>Due During Fiscal Years Ending December 31,</b>	<b>Refunding Series 2011A</b>		
	<b>Principal Due April 1</b>	<b>Interest Due April 1, October 1,</b>	<b>Total</b>
2018	\$ 260,000	\$ 65,025	\$ 325,025
2019	265,000	59,113	324,113
2020	840,000	45,300	885,300
2021	870,000	17,400	887,400
Totals	\$ 2,235,000	\$ 186,838	\$ 2,421,838



**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2017**

<b>Due During Fiscal Years Ending December 31,</b>	<b>Series 2013</b>		
	<b>Principal Due April 1</b>	<b>Interest Due April 1, October 1,</b>	<b>Total</b>
2018	\$ -	\$ 124,837	\$ 124,837
2019	-	124,837	124,837
2020	-	124,837	124,837
2021	-	124,837	124,837
2022	345,000	120,094	465,094
2023	350,000	110,538	460,538
2024	360,000	100,775	460,775
2025	375,000	90,669	465,669
2026	375,000	80,356	455,356
2027	375,000	70,044	445,044
2028	385,000	59,594	444,594
2029	400,000	48,300	448,300
2030	600,000	33,300	633,300
2031	810,000	12,150	822,150
Totals	\$ 4,375,000	\$ 1,225,168	\$ 5,600,168

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2017**

Due During Fiscal Years Ending December 31,	Series 2014		
	Principal Due April 1	Interest Due April 1, October 1,	Total
2018	\$ 100,000	\$ 122,588	\$ 222,588
2019	100,000	119,588	219,588
2020	100,000	116,587	216,587
2021	100,000	114,088	214,088
2022	100,000	111,963	211,963
2023	100,000	109,587	209,587
2024	100,000	106,838	206,838
2025	100,000	103,837	203,837
2026	100,000	100,838	200,838
2027	100,000	97,837	197,837
2028	100,000	94,775	194,775
2029	100,000	91,650	191,650
2030	300,000	85,212	385,212
2031	550,000	71,400	621,400
2032	570,000	52,843	622,843
2033	600,000	32,725	632,725
2034	635,000	11,113	646,113
Totals	\$ 3,855,000	\$ 1,543,469	\$ 5,398,469

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2017**

Due During Fiscal Years Ending December 31,	Series 2015		
	Principal Due April 1	Interest Due April 1, October 1,	Total
2018	\$ -	\$ 60,450	\$ 60,450
2019	-	60,450	60,450
2020	-	60,450	60,450
2021	-	60,450	60,450
2022	100,000	58,950	158,950
2023	100,000	55,950	155,950
2024	100,000	52,950	152,950
2025	100,000	49,950	149,950
2026	100,000	46,950	146,950
2027	100,000	43,950	143,950
2028	100,000	40,950	140,950
2029	100,000	37,950	137,950
2030	150,000	34,200	184,200
2031	150,000	29,700	179,700
2032	225,000	24,075	249,075
2033	225,000	17,325	242,325
2034	225,000	10,575	235,575
2035	240,000	3,600	243,600
Totals	\$ 2,015,000	\$ 748,875	\$ 2,763,875

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**December 31, 2017**

Due During Fiscal Years Ending December 31,	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2018	\$ 970,000	\$ 689,131	\$ 1,659,131
2019	1,000,000	653,569	1,653,569
2020	1,040,000	621,305	1,661,305
2021	1,070,000	586,156	1,656,156
2022	1,120,000	546,077	1,666,077
2023	1,165,000	505,792	1,670,792
2024	1,210,000	462,682	1,672,682
2025	1,260,000	417,469	1,677,469
2026	1,300,000	370,154	1,670,154
2027	1,340,000	320,803	1,660,803
2028	1,395,000	269,088	1,664,088
2029	1,455,000	214,162	1,669,162
2030	1,450,000	161,212	1,611,212
2031	1,510,000	113,250	1,623,250
2032	795,000	76,918	871,918
2033	825,000	50,050	875,050
2034	860,000	21,688	881,688
2035	240,000	3,600	243,600
Totals	<u>\$ 20,005,000</u>	<u>\$ 6,083,106</u>	<u>\$ 26,088,106</u>

# Harris-Fort Bend Counties Municipal Utility District No. 5

## Changes in Long-term Bonded Debt

### Year Ended December 31, 2017

	<b>Bond</b>		
	<b>Refunding Series 2006</b>	<b>Series 2008</b>	<b>Series 2011</b>
Interest rates	4.00%	4.75% to 6.75%	4.00% to 4.25%
Dates interest payable	April 1/October 1	April 1/October 1	April 1/October 1
Maturity dates	April 1, 2018/2019	April 1, 2018/2029	April 1, 2022/2030
Bonds outstanding, beginning of current year	\$ 1,530,000	\$ 2,700,000	\$ 3,880,000
Retirements, principal	485,000	100,000	-
Bonds outstanding, end of current year	\$ 1,045,000	\$ 2,600,000	\$ 3,880,000
Interest paid during current year	\$ 51,500	\$ 131,625	\$ 159,756

Paying agent's name and address:

**Series 2006** - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

**Series 2008** - Regions Bank, Houston, Texas

**Series 2011** - Regions Bank, Houston, Texas

**Series 2011A** - U.S. Bank, National Association, Houston, Texas

**Series 2013** - Regions Bank, Houston, Texas

**Series 2014** - Regions Bank, Houston, Texas

**Series 2015** - Regions Bank, Houston, Texas

Bond authority:

	<b>Tax Bonds</b>	<b>Other Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 39,600,000	0	\$ 27,000,000
Amount issued	\$ 29,615,000	0	\$ 536,653
Remaining to be issued	\$ 9,985,000	0	\$ 26,463,347

Debt service fund cash and temporary investment balances as of December 31, 2017: \$ 2,994,429

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,449,339

**Issues**

<b>Refunding</b>				
<b>Series 2011A</b>	<b>Series 2013</b>	<b>Series 2014</b>	<b>Series 2015</b>	<b>Totals</b>
2.00% to 4.00%	2.75% to 3.00%	2.00% to 3.50%	3.00%	
April 1/October 1	April 1/October 1	April 1/October 1	April 1/October 1	
April 1, 2018/2021	April 1, 2022/2031	April 1, 2018/2034	April 1, 2022/2035	
\$ 2,490,000	\$ 4,375,000	\$ 3,955,000	\$ 2,015,000	\$ 20,945,000
<u>255,000</u>	<u>-</u>	<u>100,000</u>	<u>-</u>	<u>940,000</u>
<u>\$ 2,235,000</u>	<u>\$ 4,375,000</u>	<u>\$ 3,855,000</u>	<u>\$ 2,015,000</u>	<u>\$ 20,005,000</u>
<u>\$ 70,175</u>	<u>\$ 124,838</u>	<u>\$ 125,587</u>	<u>\$ 60,450</u>	<u>\$ 723,931</u>

# Harris-Fort Bend Counties Municipal Utility District No. 5

## Comparative Schedule of Revenues and Expenditures – General Fund

### Five Years Ended December 31,

	Amounts				
	2017	2016	2015	2014	2013
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 467,281	\$ 436,198	\$ 465,003	\$ 272,681	\$ 241,042
City of Houston tax rebates	161,011	163,385	144,900	117,830	99,729
Water service	526,072	532,792	536,175	530,900	555,018
Sewer service	519,636	513,272	506,081	490,914	516,174
Regional water fee	496,757	464,075	407,156	373,416	338,648
Penalty and interest	31,990	40,774	37,065	33,822	38,070
Tap connection and inspection fees	20,235	71,630	169,070	70,120	80,495
Investment income	35,341	22,640	15,458	13,611	12,470
Other income	43,851	23,318	21,241	28,163	36,821
<b>Total revenues</b>	<u>2,302,174</u>	<u>2,268,084</u>	<u>2,302,149</u>	<u>1,931,457</u>	<u>1,918,467</u>
<b>Expenditures</b>					
Service operations:					
Purchased services	508,545	392,945	351,720	341,420	650,040
Regional water fee	514,628	483,589	422,324	388,881	360,196
Professional fees	200,451	184,908	155,804	147,208	138,285
Contracted services	360,226	356,462	347,528	328,005	369,308
Utilities	4,107	3,076	2,337	2,252	3,285
Repairs and maintenance	253,639	171,425	193,433	304,070	226,742
Other expenditures	102,094	121,636	142,951	83,068	97,816
Tap connections	-	25,860	58,100	23,220	26,145
Capital outlay	859,822	27,746	20,281	112,283	65,308
<b>Total expenditures</b>	<u>2,803,512</u>	<u>1,767,647</u>	<u>1,694,478</u>	<u>1,730,407</u>	<u>1,937,125</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(501,338)	500,437	607,671	201,050	(18,658)
<b>Other Financing Sources</b>					
Interfund transfers in	74,193	99,160	19,871	82,320	30,601
<b>Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out</b>	(427,145)	599,597	627,542	283,370	11,943
<b>Fund Balance, Beginning of Year</b>	<u>4,519,582</u>	<u>3,919,985</u>	<u>3,292,443</u>	<u>3,009,073</u>	<u>2,997,130</u>
<b>Fund Balance, End of Year</b>	<u>\$ 4,092,437</u>	<u>\$ 4,519,582</u>	<u>\$ 3,919,985</u>	<u>\$ 3,292,443</u>	<u>\$ 3,009,073</u>
<b>Total Active Retail Water Connections</b>	<u>1,390</u>	<u>1,386</u>	<u>1,382</u>	<u>1,358</u>	<u>1,336</u>
<b>Total Active Retail Wastewater Connections</b>	<u>1,348</u>	<u>1,346</u>	<u>1,346</u>	<u>1,323</u>	<u>1,306</u>

**Percent of Fund Total Revenues**

<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
20.3 %	19.2 %	20.2 %	14.1 %	12.6 %
7.0	7.2	6.3	6.1	5.2
22.8	23.5	23.3	27.5	28.9
22.6	22.6	22.0	25.4	26.9
21.6	20.5	17.7	19.3	17.7
1.4	1.8	1.6	1.8	2.0
0.9	3.2	7.3	3.6	4.2
1.5	1.0	0.7	0.7	0.6
1.9	1.0	0.9	1.5	1.9
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
22.1	17.3	15.3	17.7	33.9
22.4	21.3	18.3	20.1	18.8
8.7	8.2	6.8	7.6	7.2
15.7	15.7	15.1	17.0	19.2
0.2	0.1	0.1	0.1	0.2
11.0	7.6	8.4	15.7	11.8
4.4	5.4	6.2	4.3	5.1
-	1.1	2.5	1.2	1.4
37.3	1.2	0.9	5.8	3.4
<u>121.8</u>	<u>77.9</u>	<u>73.6</u>	<u>89.5</u>	<u>101.0</u>
<u>(21.8) %</u>	<u>22.1 %</u>	<u>26.4 %</u>	<u>10.5 %</u>	<u>(1.0) %</u>



**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended December 31,**

	Amounts				
	2017	2016	2015	2014	2013
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 1,635,320	\$ 1,708,127	\$ 1,550,011	\$ 1,636,189	\$ 1,470,975
Penalty and interest	17,392	13,015	8,715	18,142	11,413
Investment income	20,613	11,268	8,089	7,392	6,579
Other income	15	20	19	16	10
Total revenues	<u>1,673,340</u>	<u>1,732,430</u>	<u>1,566,834</u>	<u>1,661,739</u>	<u>1,488,977</u>
<b>Expenditures</b>					
Current:					
Professional fees	3,747	4,124	1,727	5,827	2,756
Contracted services	37,658	41,807	37,754	35,819	31,680
Other expenditures	6,985	5,238	7,773	6,094	9,266
Debt service:					
Principal retirement	940,000	915,000	890,000	765,000	745,000
Interest and fees	729,162	751,479	735,987	682,193	599,209
Total expenditures	<u>1,717,552</u>	<u>1,717,648</u>	<u>1,673,241</u>	<u>1,494,933</u>	<u>1,387,911</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(44,212)	14,782	(106,407)	166,806	101,066
<b>Fund Balance, Beginning of Year</b>	<u>1,761,637</u>	<u>1,746,855</u>	<u>1,853,262</u>	<u>1,686,456</u>	<u>1,585,390</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 1,717,425</u></u>	<u><u>\$ 1,761,637</u></u>	<u><u>\$ 1,746,855</u></u>	<u><u>\$ 1,853,262</u></u>	<u><u>\$ 1,686,456</u></u>

**Percent of Fund Total Revenues**

<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
97.7 %	98.6 %	98.9 %	98.5 %	98.8 %
1.1	0.8	0.6	1.1	0.8
1.2	0.6	0.5	0.4	0.4
0.0	0.0	0.0	0.0	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.2	0.2	0.1	0.4	0.2
2.2	2.4	2.4	2.2	2.1
0.4	0.3	0.5	0.4	0.6
56.2	52.8	56.8	46.0	50.0
<u>43.6</u>	<u>43.4</u>	<u>47.0</u>	<u>41.1</u>	<u>40.3</u>
<u>102.6</u>	<u>99.1</u>	<u>106.8</u>	<u>90.1</u>	<u>93.2</u>
<u><u>(2.6) %</u></u>	<u><u>0.9 %</u></u>	<u><u>(6.8) %</u></u>	<u><u>9.9 %</u></u>	<u><u>6.8 %</u></u>

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Board Members, Key Personnel and Consultants**  
**Year Ended December 31, 2017**

Complete District mailing address:	Harris-Fort Bend Counties Municipal Utility District No. 5 c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 1400 Houston, Texas 77056
District business telephone number:	713.623.4531
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	May 18, 2016
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Jack R. Wells, Jr.	Elected 05/16- 05/20	\$ 3,600	\$ 1,982	President
Elizabeth Caballero	Elected 05/14- 05/18	1,800	277	Vice President
Patrice Castillo	Elected 05/14- 05/18	1,950	167	Secretary
B.F. Perdue	Elected 05/14- 05/18	1,800	265	Assistant Secretary
David R. Glunt	Elected 05/16- 05/20	6,150	2,590	Director

\*Fees are the amounts actually paid to a director during the District's fiscal year.

**Harris-Fort Bend Counties Municipal Utility District No. 5**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended December 31, 2017**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
B&A Municipal Tax Service, LLC	10/12/11	\$ 32,436	Tax Assessor/ Collector
BKD, LLP	06/18/97	26,500	Auditor
Hilltop Securities Inc.	10/16/02	0	Financial Advisor
Fort Bend Central Appraisal District	Legislative Action	13,671	Appraiser
Municipal Accounts & Consulting, L.P.	03/06/95	43,710	Bookkeeper
Municipal District Services, L.L.C.	04/18/12	563,006	Operator
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/21/99	3,747	Delinquent Tax Attorney
Schwartz, Page & Harding, L.L.P.	03/07/95	110,986	General Counsel
Van De Wiele & Vogler Incorporated	03/07/95	159,039	Engineer
<b>Investment Officers</b>			
Mark M. Burton and Ghia Lewis	02/18/04	N/A	Bookkeepers

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**



**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

SPECIAL MEMBER

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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